



THE AUSTRALIAN ECONOMY THIS WEEK

21st JANUARY 2022

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

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What's new?

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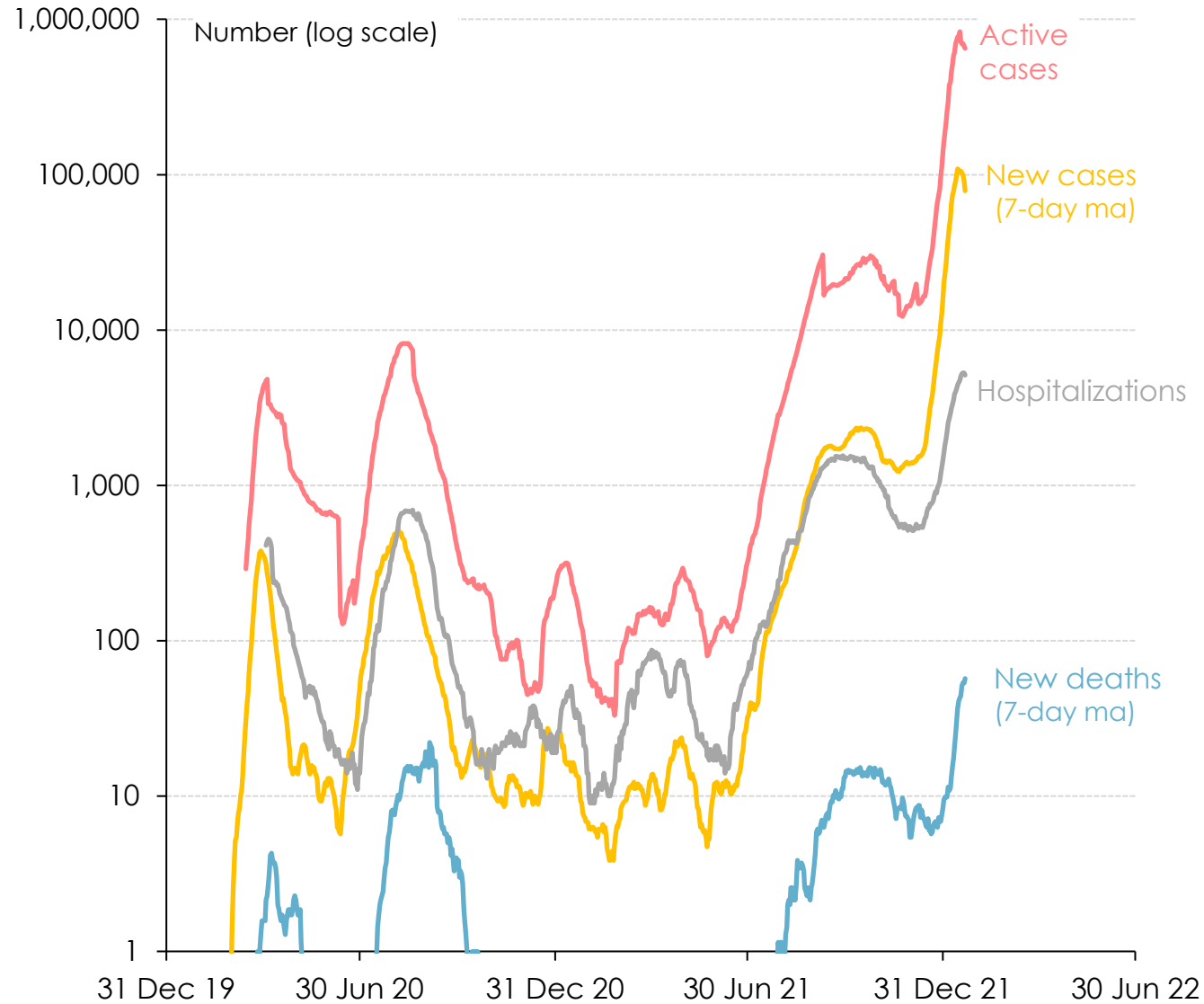
- ❑ The Omicron variant of Covid-19 has spread widely and rapidly since first arriving in Australia in mid-December, with new infections, hospitalizations and deaths significantly exceeding previous peaks – although there are some tentative indications that the number of infections may have passed its peak ([slide 5](#))
- ❑ Although governments have resisted re-imposing restrictions (apart from Western Australia, which has closed its borders to the rest of Australia and deferred previously-announced plans to re-open them on 5th February to ‘a date to be determined’, when 80% of the state’s residents have received a ‘booster’ vaccination), a large number of Australians who have caught the virus have been unable to go to work, and many more Australians have opted to restrict their movements – albeit to a much lesser extent than during previous enforced lockdowns ([slide 10](#))
- ❑ Prior to the emergence of the Omicron variant, a wide range of indicators had pointed to a strong rebound in economic activity as NSW, Victoria and the ACT emerged from lockdowns ([slides 17](#) and [30](#)): this rebound is likely to have been interrupted in January, but if the Omicron wave does peak late this month or early February, the odds are that a strong recovery will resume given, inter alia, abundant household savings ([slide 29](#)) and record job vacancies ([slide 49](#))
- ❑ Employment rose by 65,000 (0.5%) in December, following on from a record 366,000 (2.9%) increase in November, pushing the unemployment rate down to 4.2%, the lowest since August 2008 ([slide 39](#)), while the ‘effective’ unemployment rate fell to 5.0%, from over 10% in August, September and October during the lockdowns in NSW, Victoria and the ACT ([slide 41](#))
- ❑ Residential property prices rose by ‘just’ 1.0% in December, the smallest rise in 11 months, down from increases of 2.2% in May & June ([slide 34](#))
- ❑ Lending to property investors and owner-occupiers ‘trading up’ continued to rise strongly in November, while lending to first-home buyers appears to have stabilized at just over 21% below the levels in the first half of 2021 ([slide 36](#))
- ❑ Residential building approvals rose 3.6% in November, after falling by almost 33% over the preceding seven months ([slide 37](#))
- ❑ Australia’s goods and services trade surplus declined for fourth month in a row, to just under \$10bn, in November, largely due to the fall in iron ore prices, with coal supplanting iron ore as Australia’s largest export ([slide 54](#))
- ❑ Coal, iron ore and base metal prices have risen strongly in the opening weeks of 2022 ([slide 52](#)), but agricultural commodities have been more mixed, with beef and milk prices up but grain prices down ([slide 53](#))
- ❑ Q4 inflation data will be released this coming Tuesday, 25th January ([slide 61](#))
- ❑ Notwithstanding the RBA’s repeated insistence that increases in interest rates aren’t warranted this year ([slide 74](#)), financial markets are pricing two rate rises in the second half of 2022 ([slide 79](#))
- ❑ The A\$ has dropped below US72¢, despite a rebound in iron ore prices in recent weeks, on the back of a stronger US\$ and reduced investor risk appetites ([slide 81](#)) which also weighed on the Australian stock market ([slide 83](#))

The virus

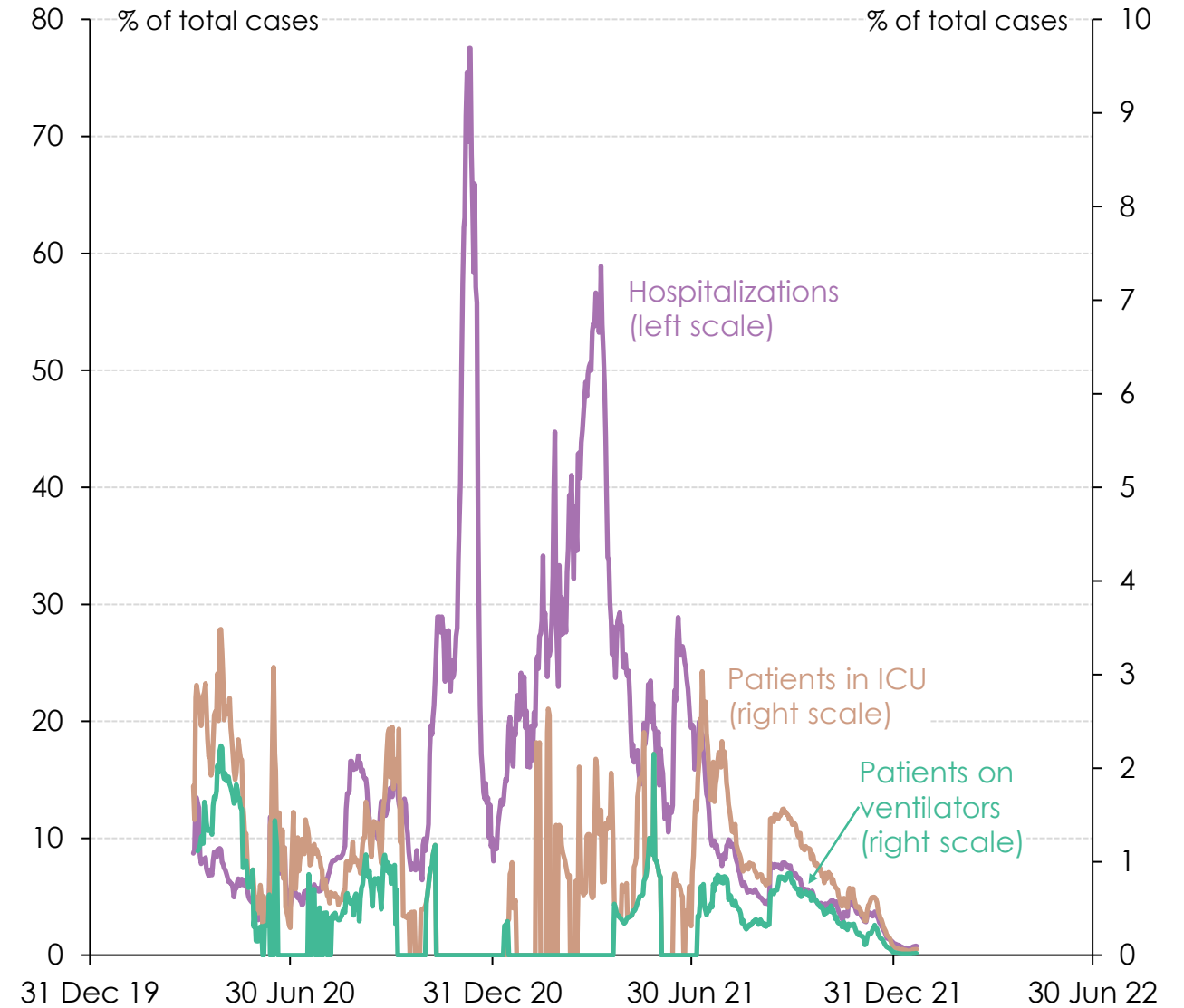
Case numbers have surged with the arrival of the 'omicron' variant in Australia – but it seems possible that the surge may have peaked

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Cases, hospitalizations and deaths



Severity of cases

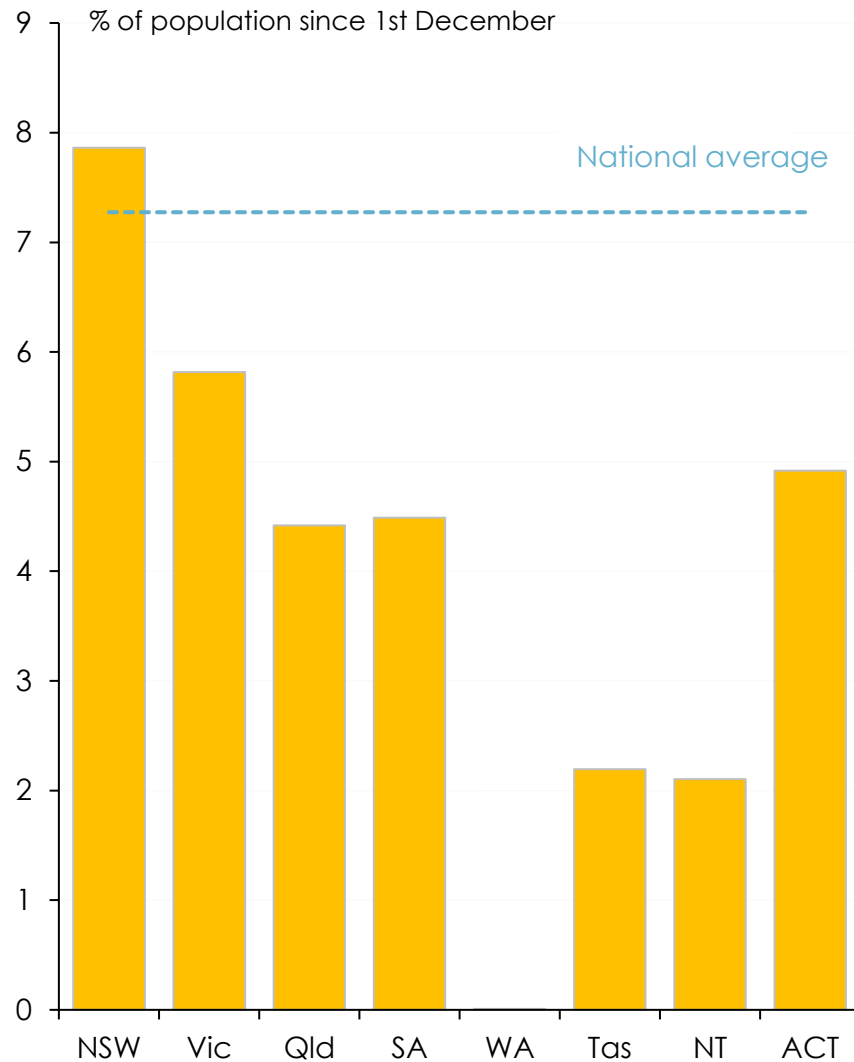


Note: Data up to 21st January. Source: covid19data.com.au. [Return to "What's New"](#).

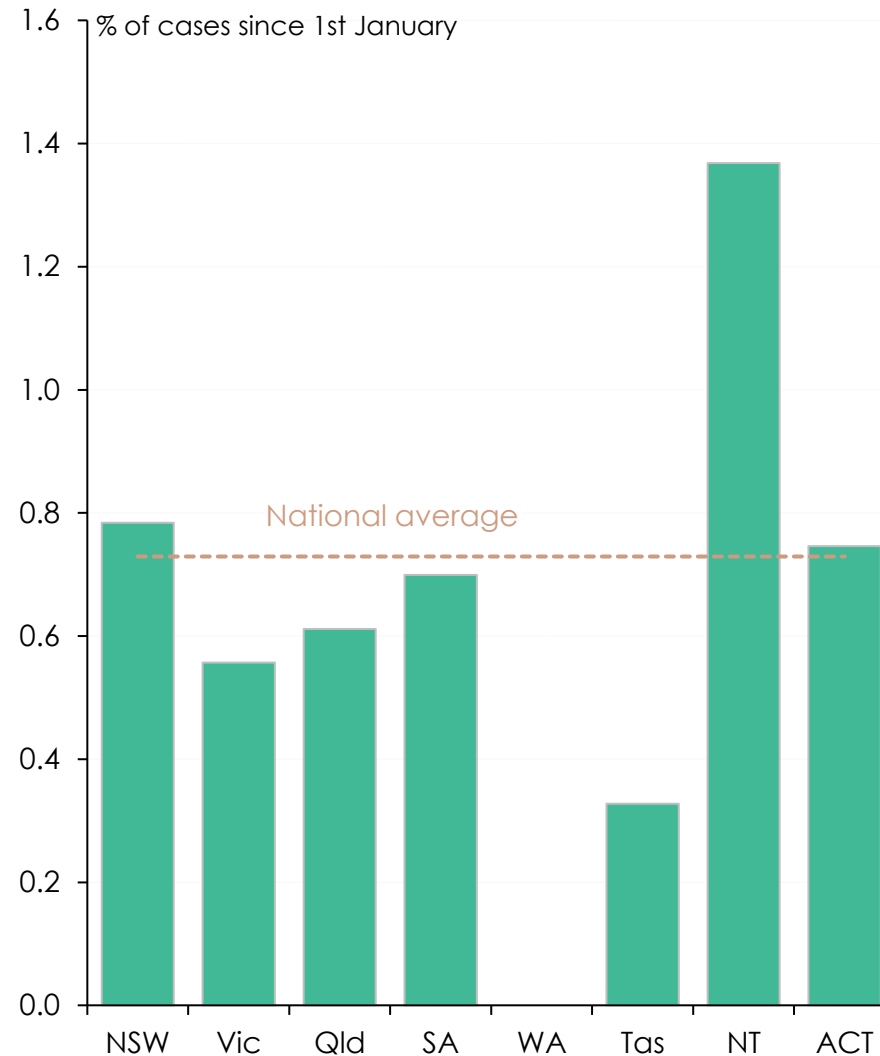
The omicron outbreak has been more widespread in NSW and Victoria than in the rest of Australia, and WA has kept it out through border closures

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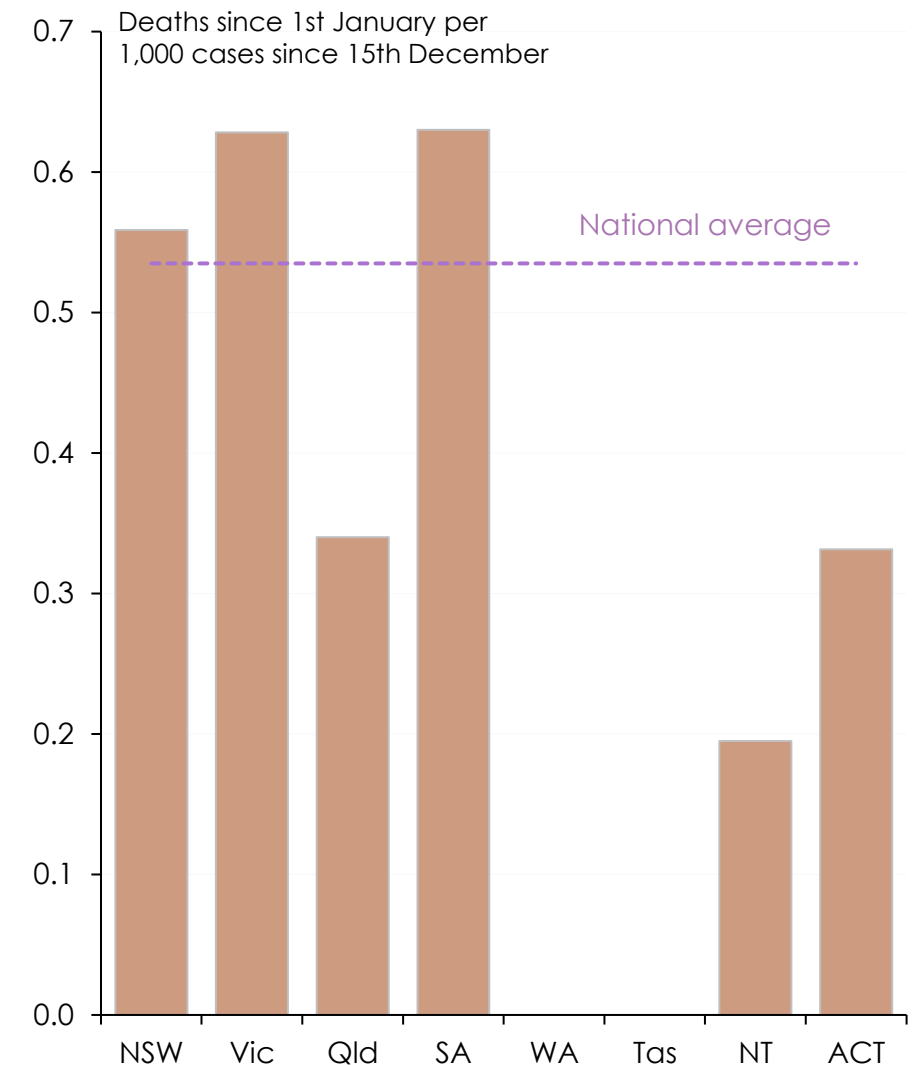
New cases since 1st December 2021



Hospitalization rate since 1st January



Fatality rate since 1st January



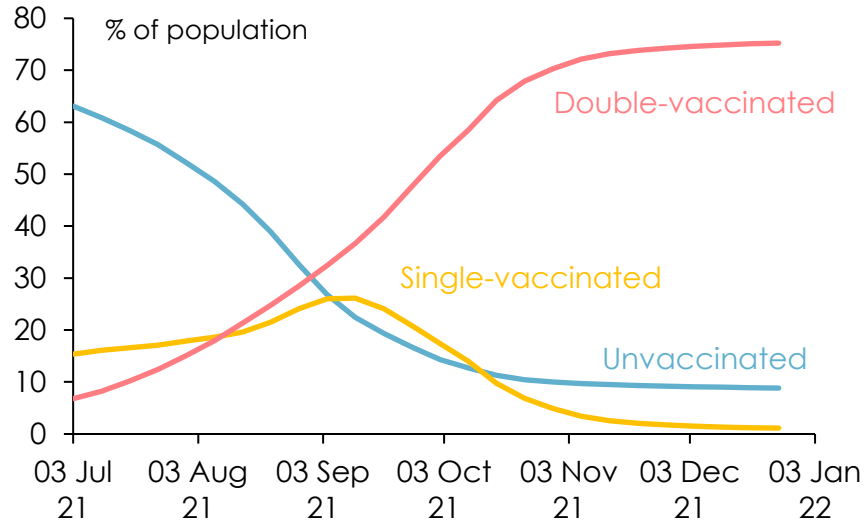
Note: Data are up to 21st January. 1st December was two days after the first omicron case was detected in Australia.

Source: covid19data.com.au. [Return to "What's New"](#).

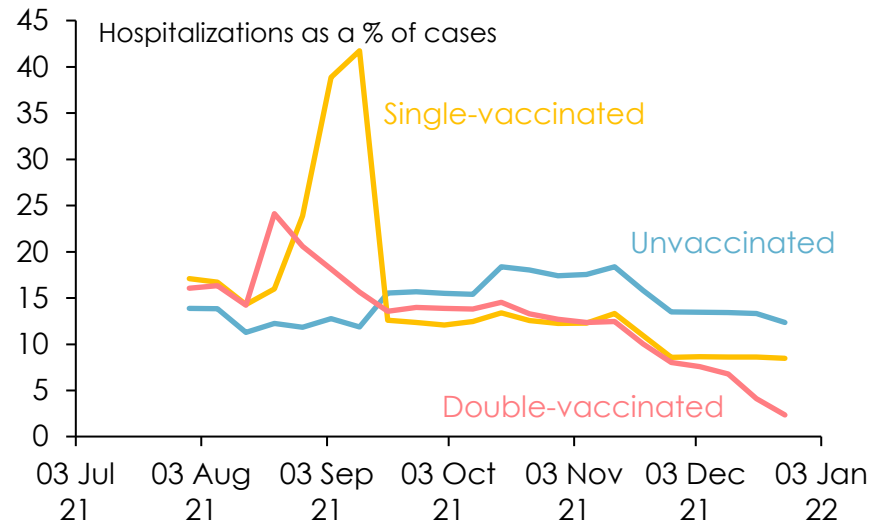
NSW data shows double-vaccination has been highly effective at reducing infection, and especially seriousness illness and death

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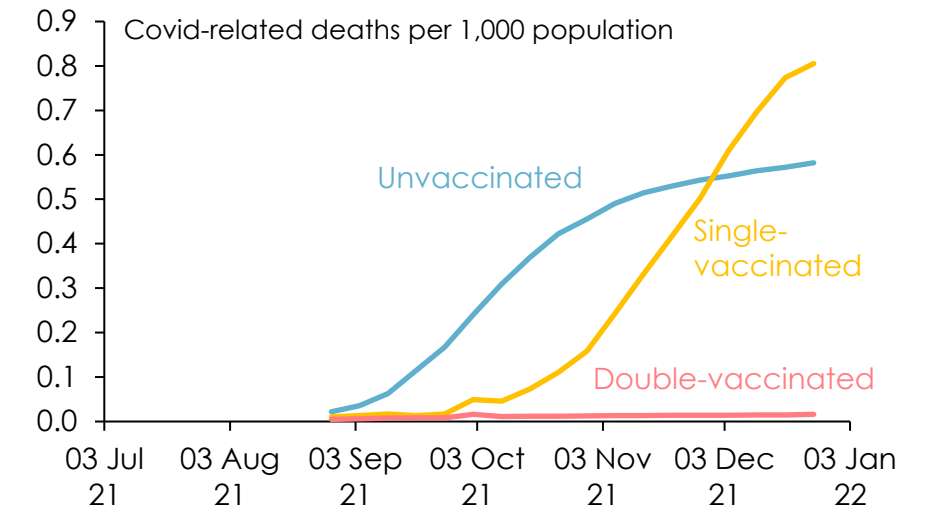
Vaccination status of population



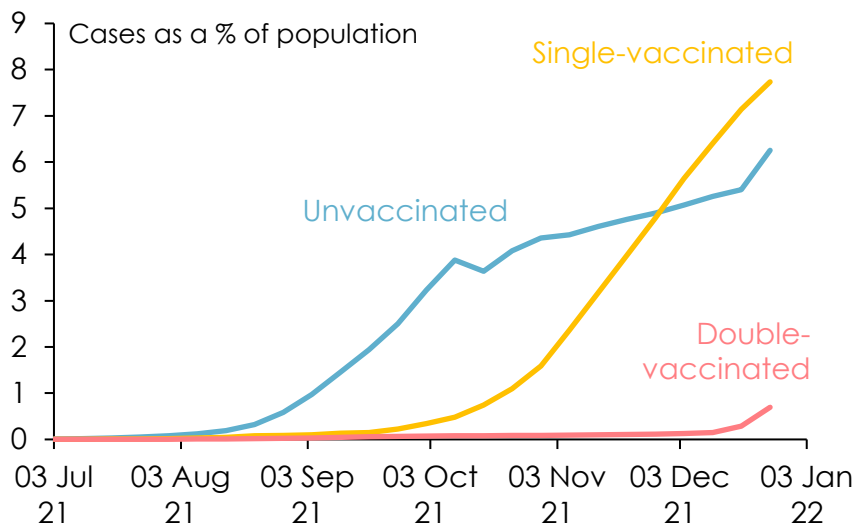
Hospitalization rate by vax status



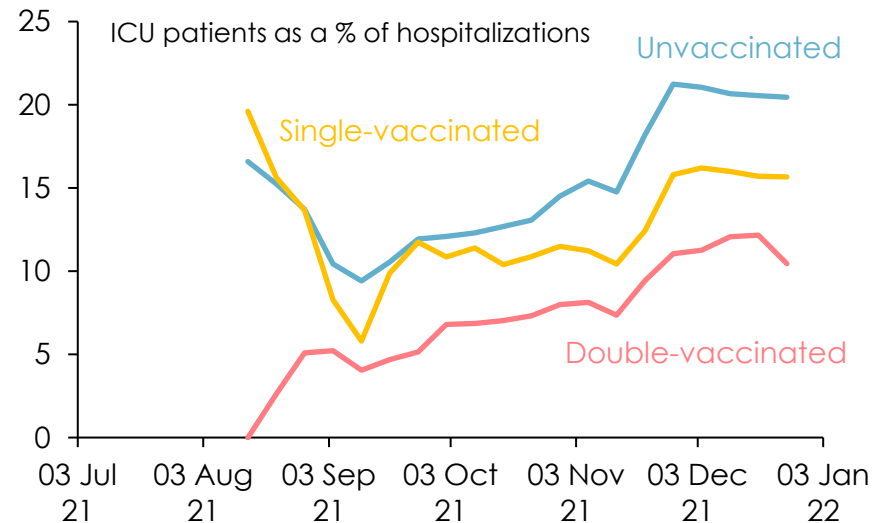
Fatality rate, by vax status



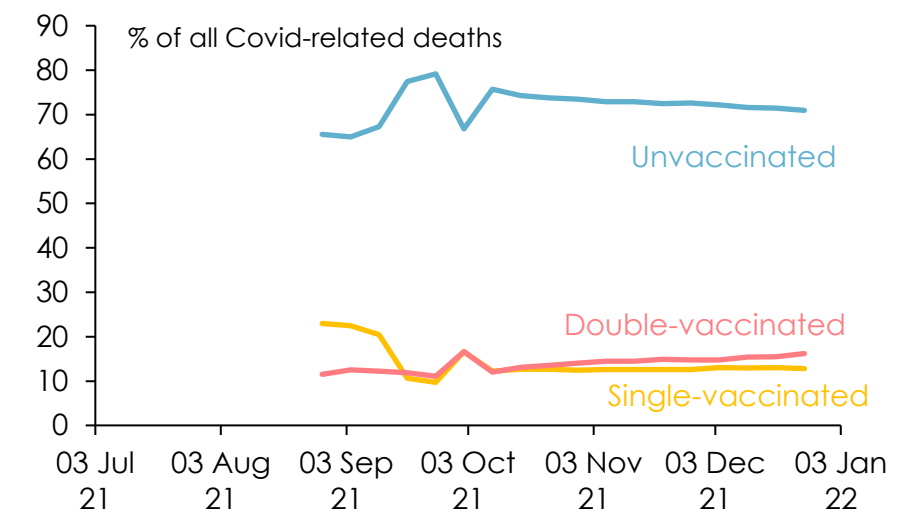
Infection rate, by vax status



Intensive-care rate, by vax status



Covid-related deaths by vax status

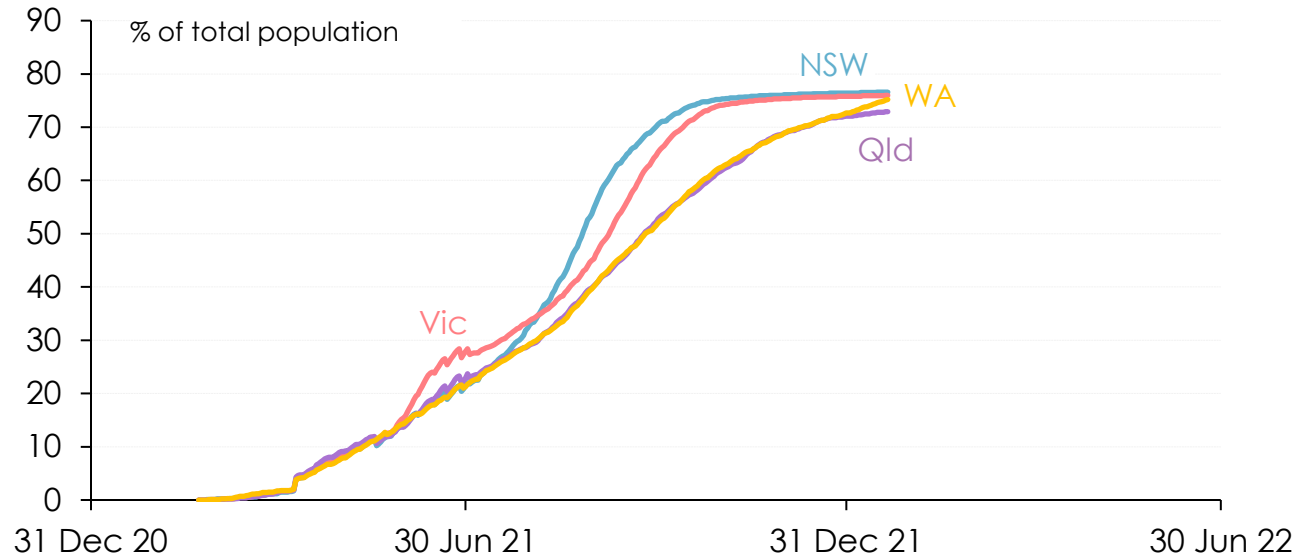


Source: covid19data.com.au; NSW Health. Return to "What's New".

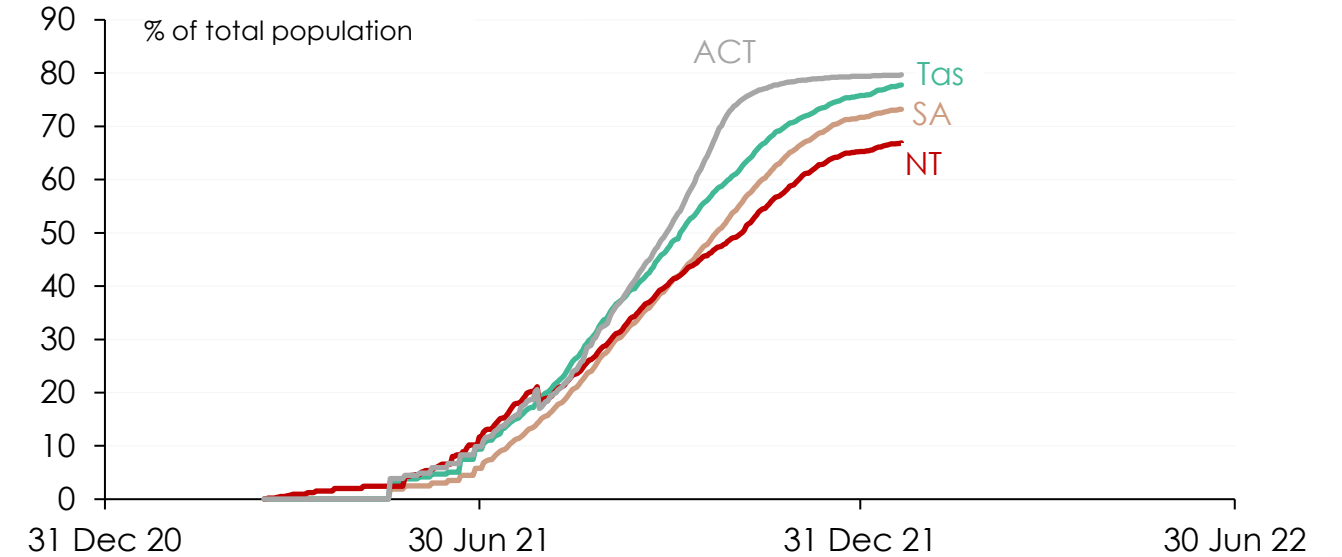
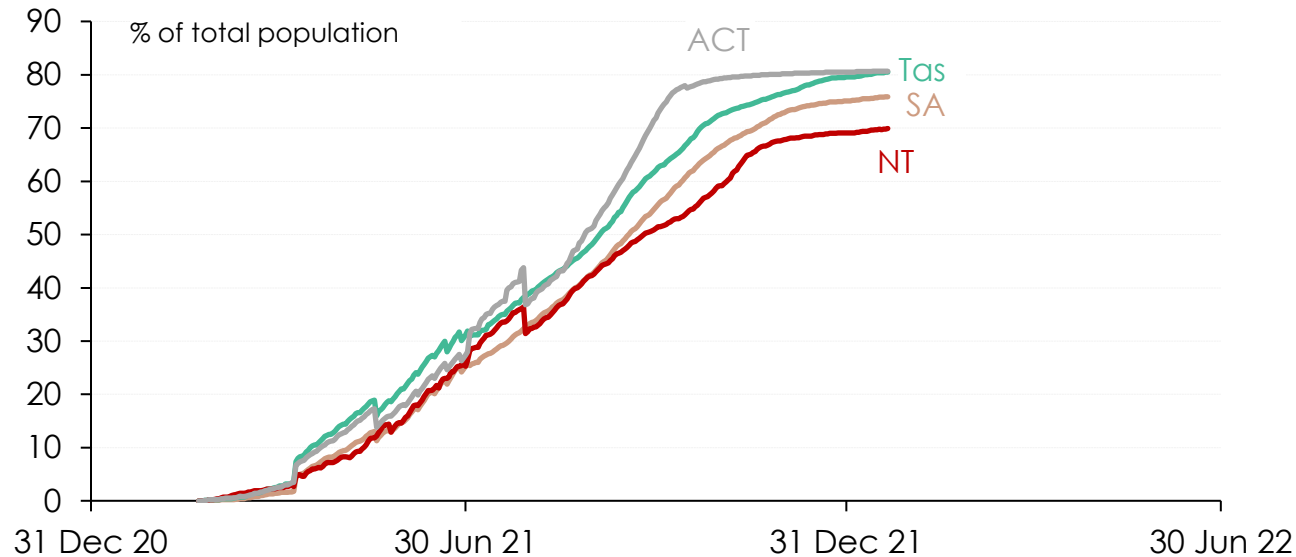
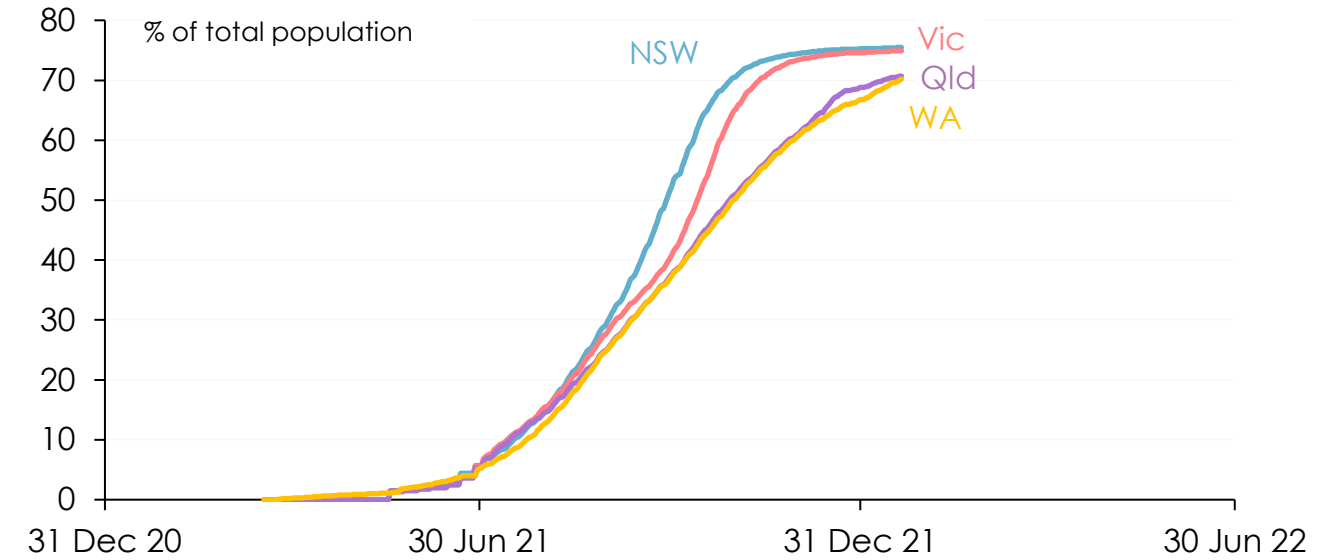
Vaccine rollouts in the Northern Territory, Western Australia and Queensland are lagging the rest of Australia

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Pc of total population with at least one vaccination



Pc of total population with two vaccinations

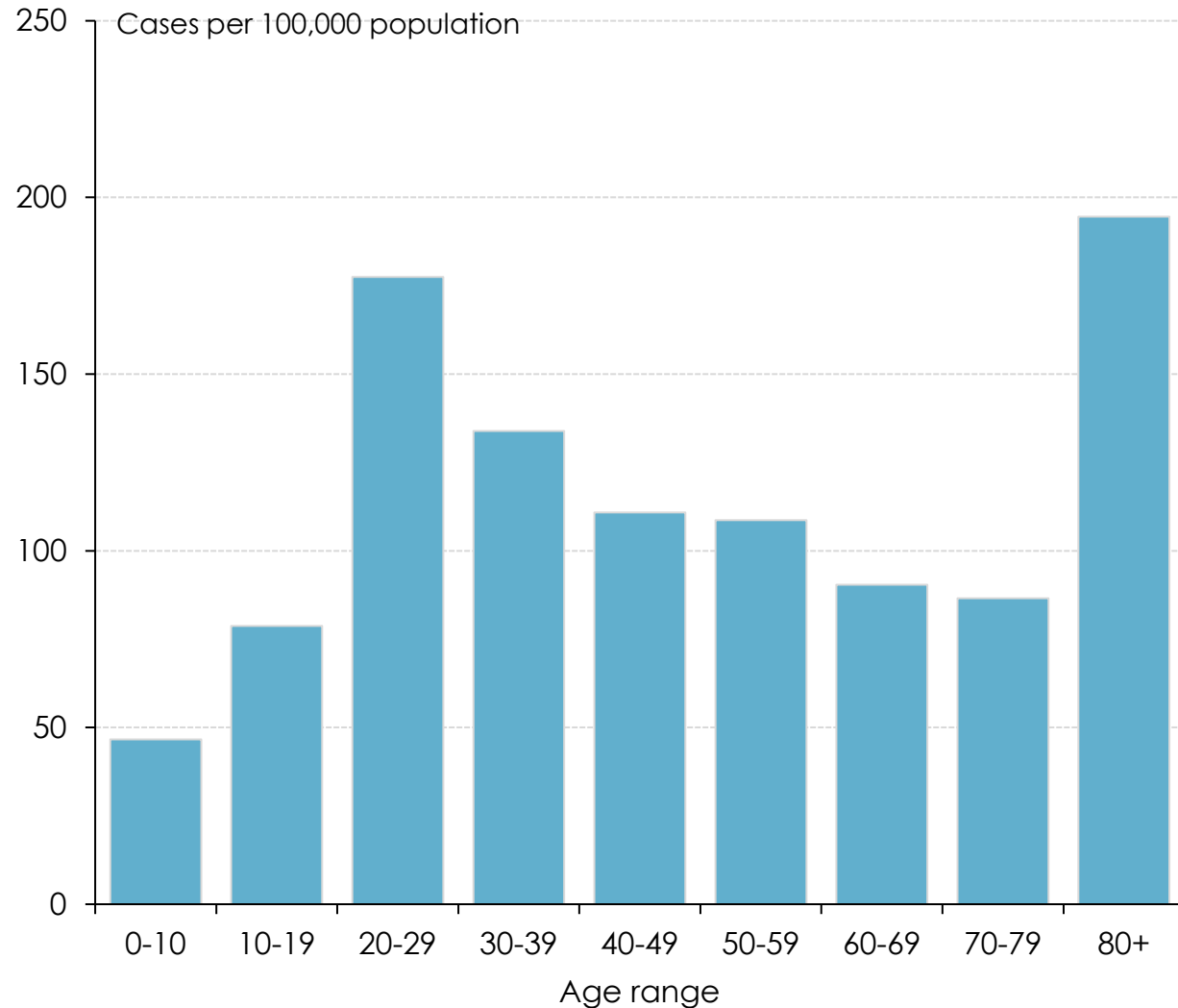


Note: Data up to 20th January. On 28th August 2021 the reporting by the Commonwealth Department of Health changed from state/territory of vaccine to state/territory of residence, which particularly affected the NT and ACT figures. Source: covid19data.com.au. [Return to "What's New"](#).

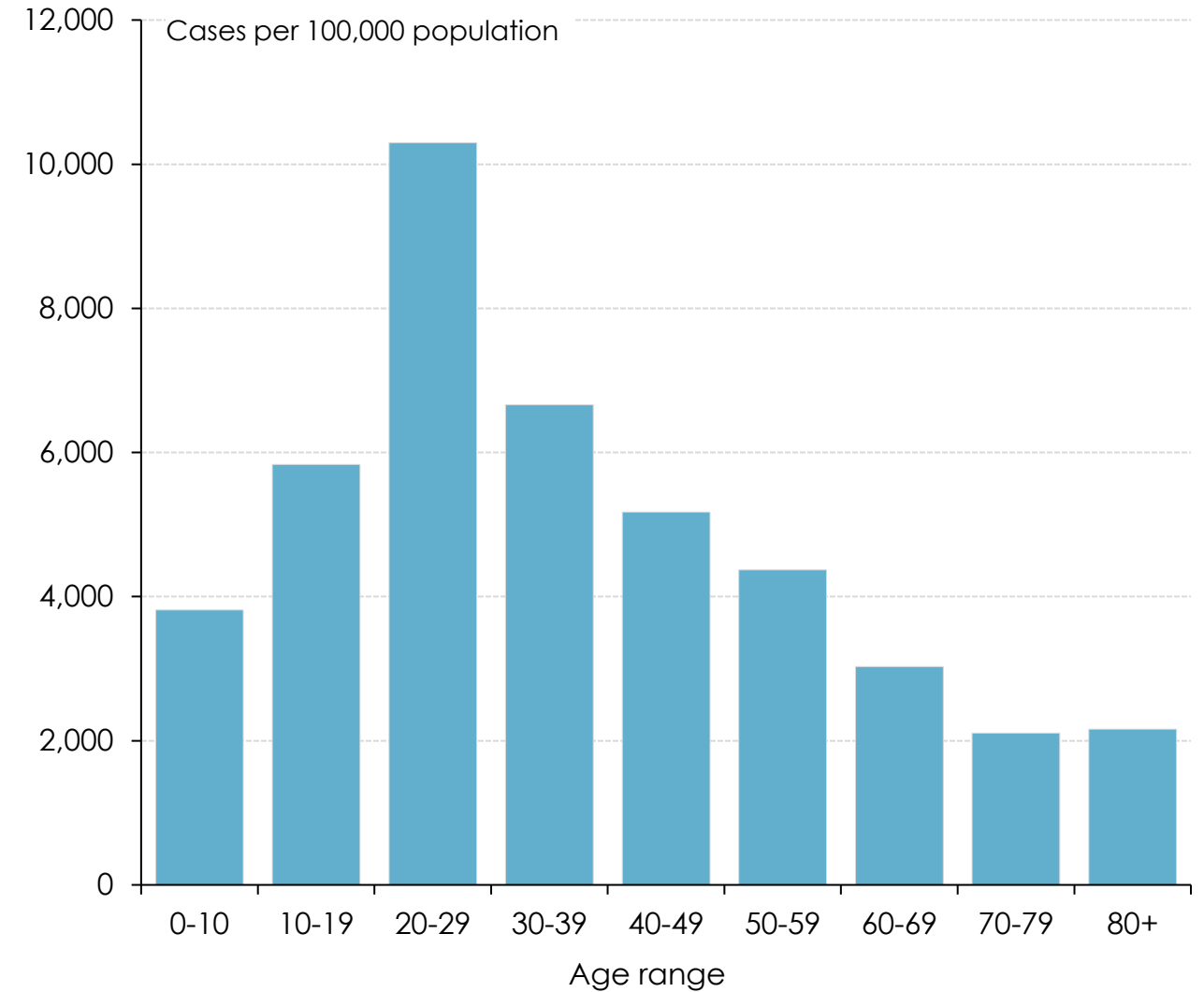
People in their 20s have been more likely to become infected than other age groups – because they ‘mix’ more and are relatively less vaccinated

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Cumulative confirmed cases per 100,000 population, by age group – 2020



Cumulative confirmed cases per 100,000 population, by age group – since 1st January 2021

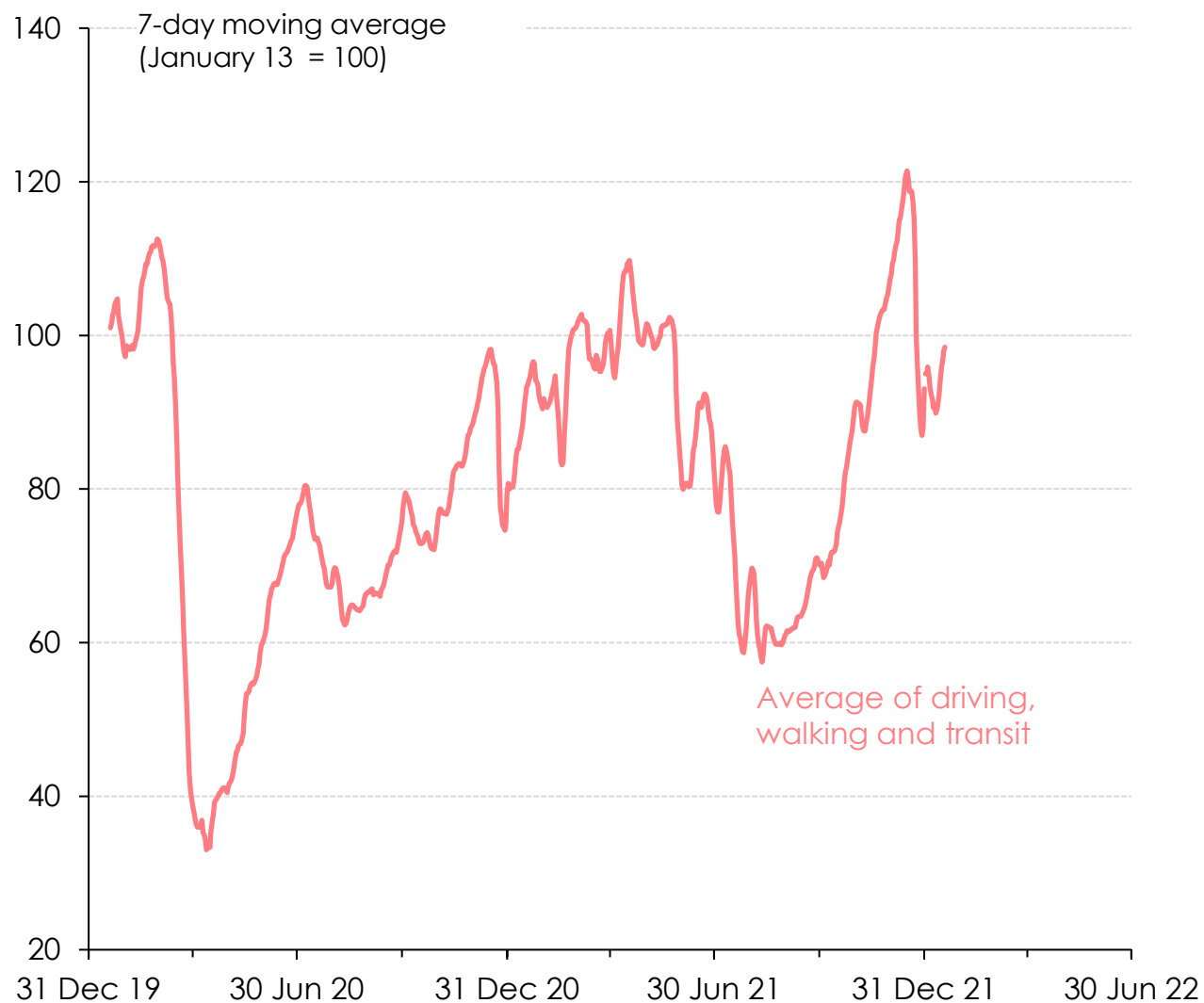


Note: Data for 2021 up to 20th January. Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

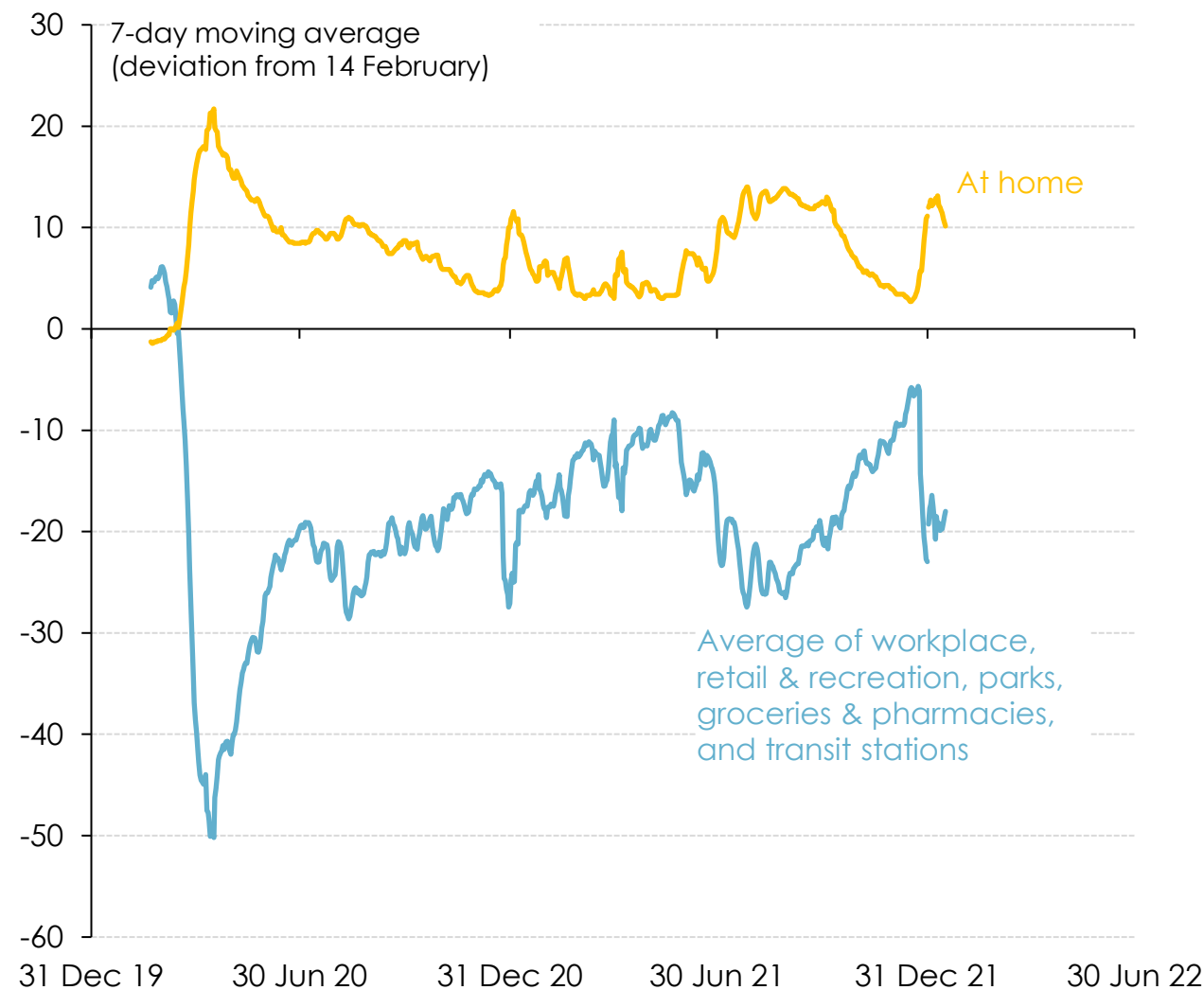
Mobility indicators suggest that there may have been a greater-than-usual downturn in activity since Christmas, but from a stronger starting point

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Apple mobility indicators



Google mobility indicators



Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 19th January). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 16th January).

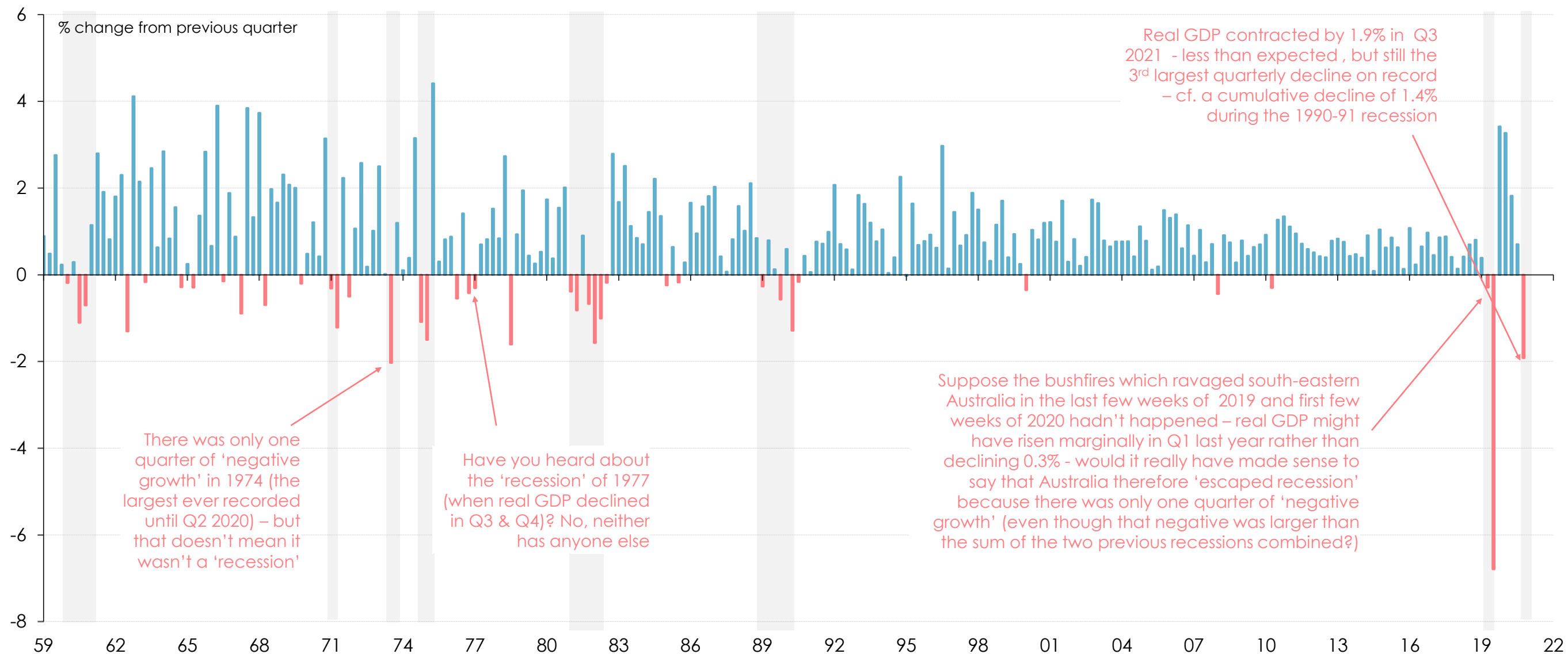
Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

Broad trends in the Australian economy

Australia's real GDP contracted by 1.9% in Q3 – less than expected, but still more than it did in the 1990-91 recession – but should rebound in Q4

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Quarterly growth in Australian real GDP, 1959-2021

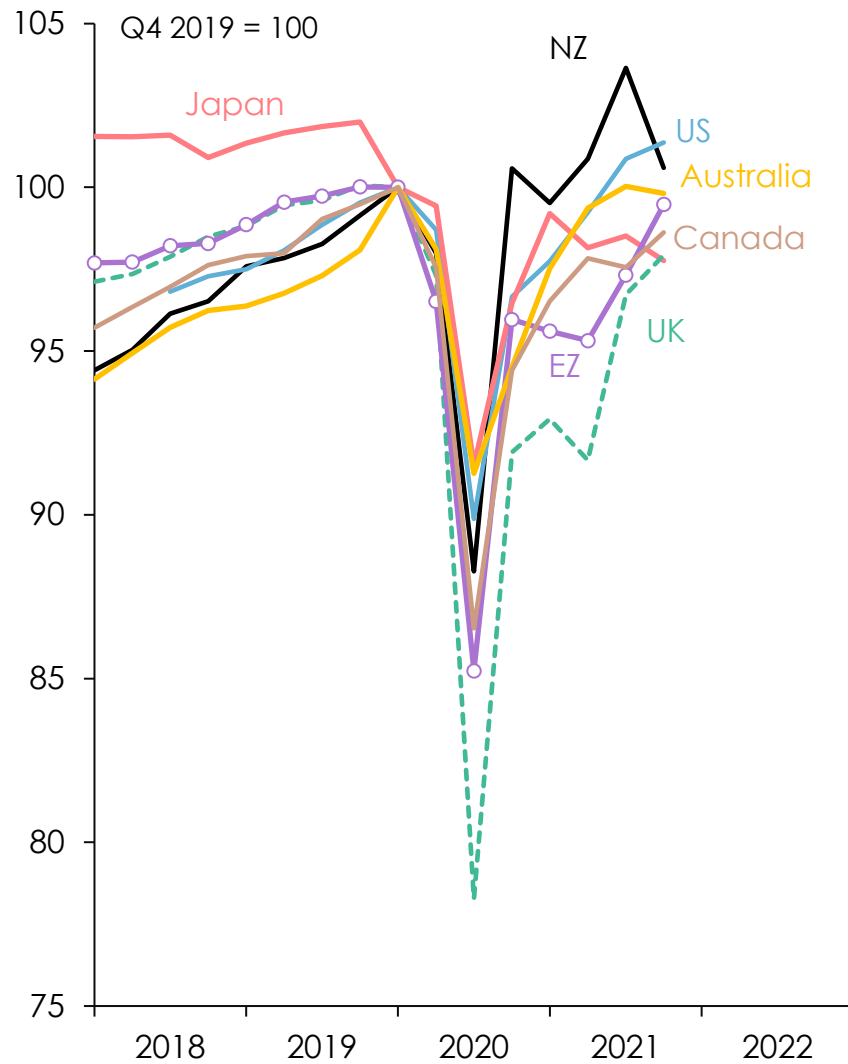


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter GDP will be released on 2nd March 2022. [Return to "What's New"](#).

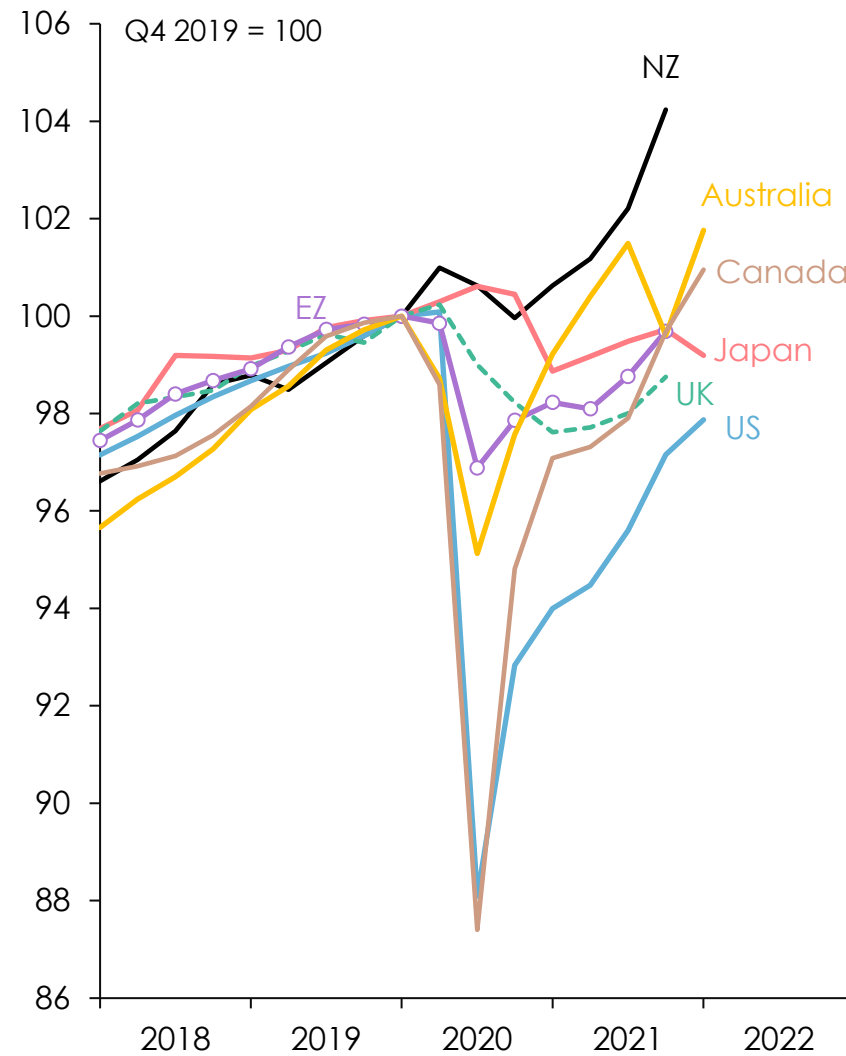
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

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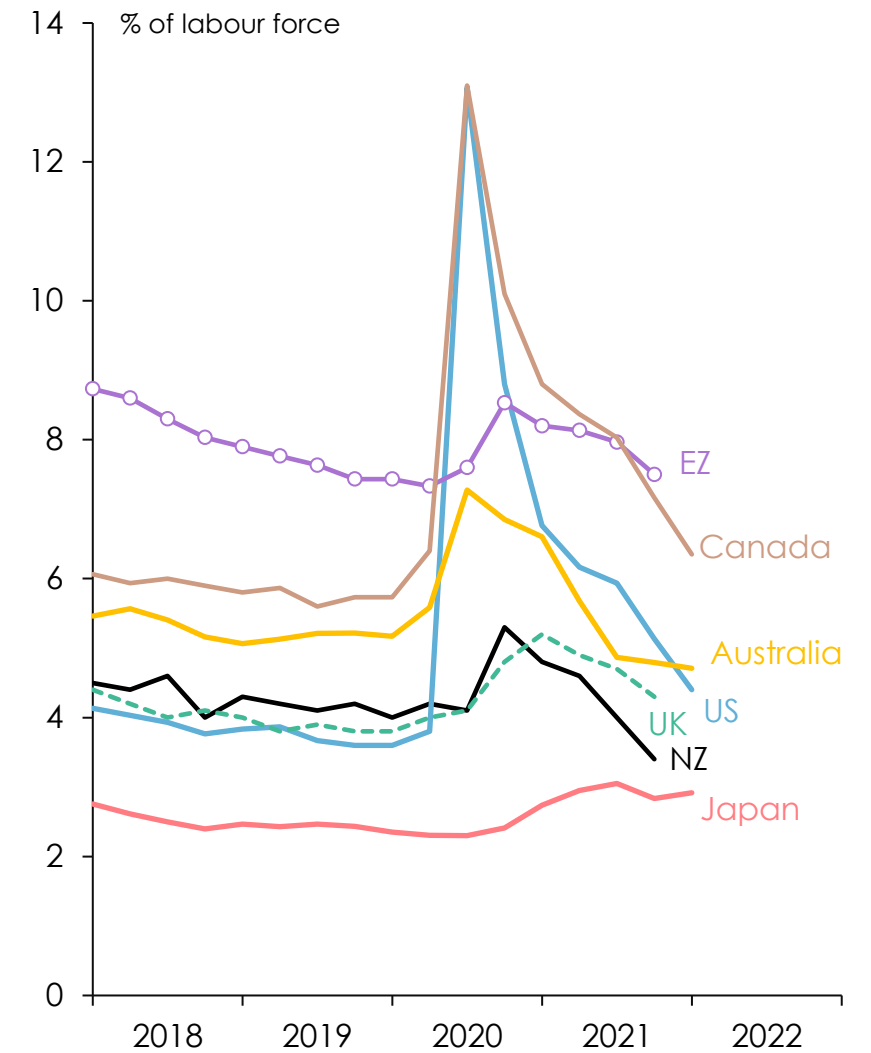
Level of real GDP



Employment



Unemployment

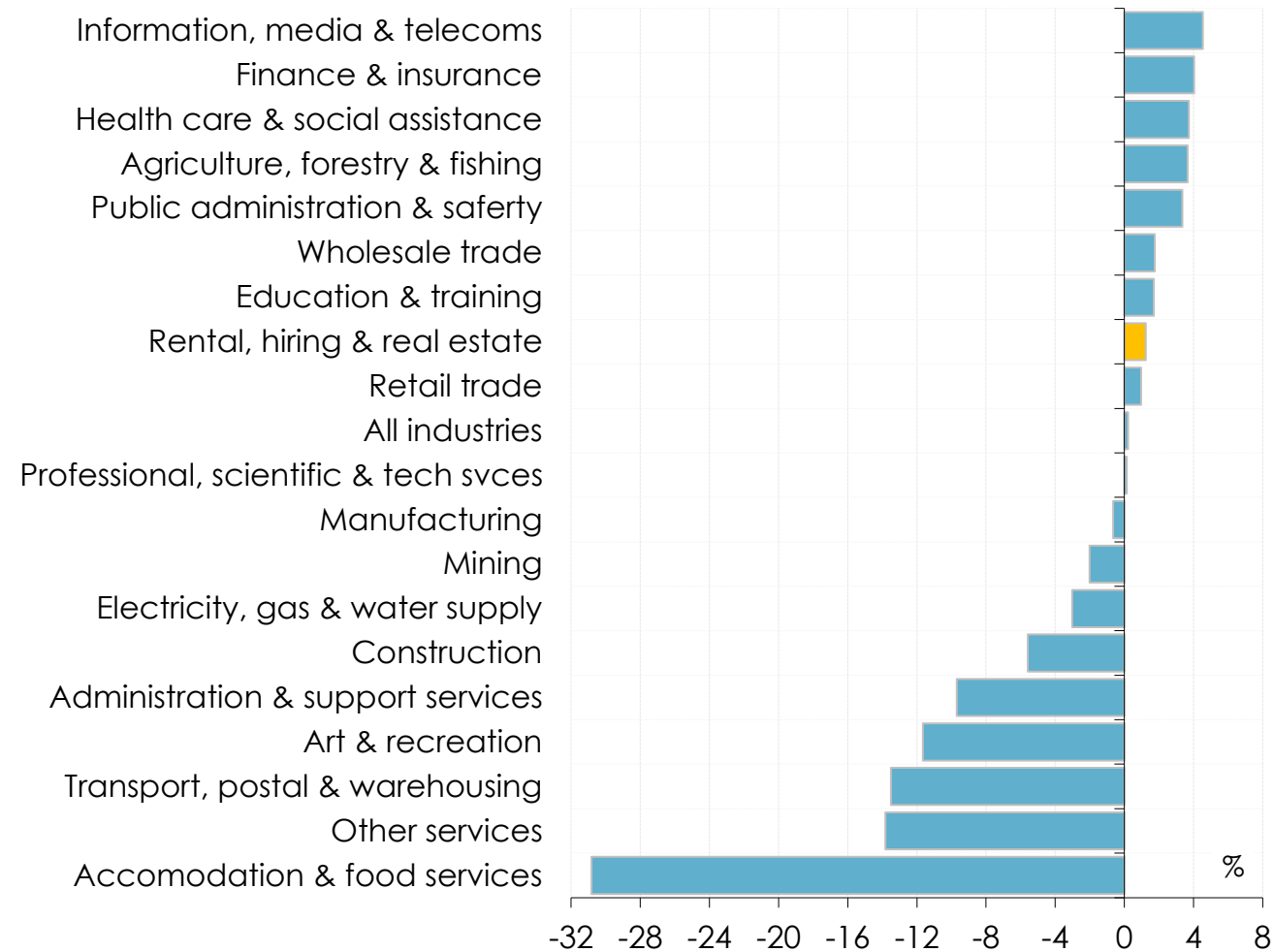


Note: Q4 2021 employment and unemployment data for Australia, the US and Canada are averages for October and November; Japan and Euro zone are October data. Sources: [ABS](#); [Statistics NZ](#); US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.

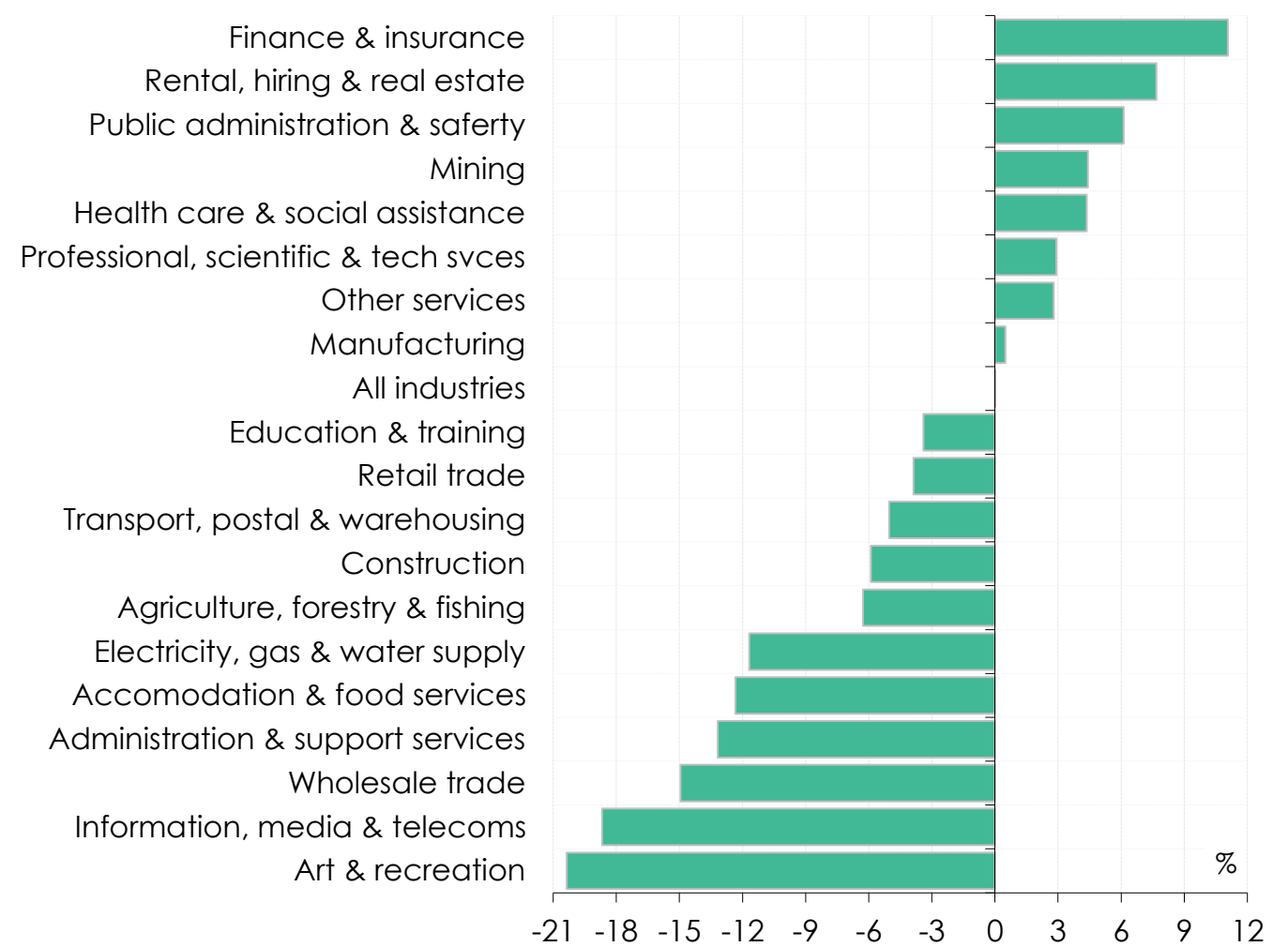
Some sectors of the economy have been much more severely affected by public health restrictions and border closures than others

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Q3 2021 real gross value added by industry – change from pre-pandemic peak



Q3 2021 employment by industry – change from pre-pandemic peak

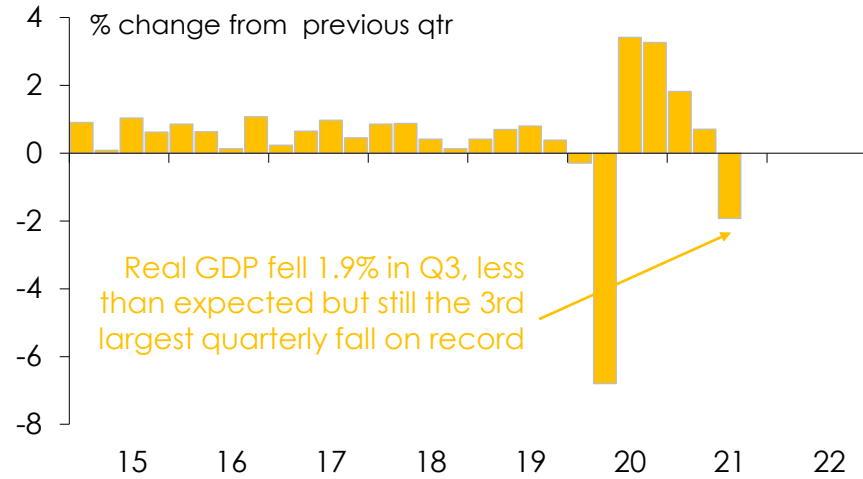


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; and [Labour Force, Australia, Detailed](#), August 2021.

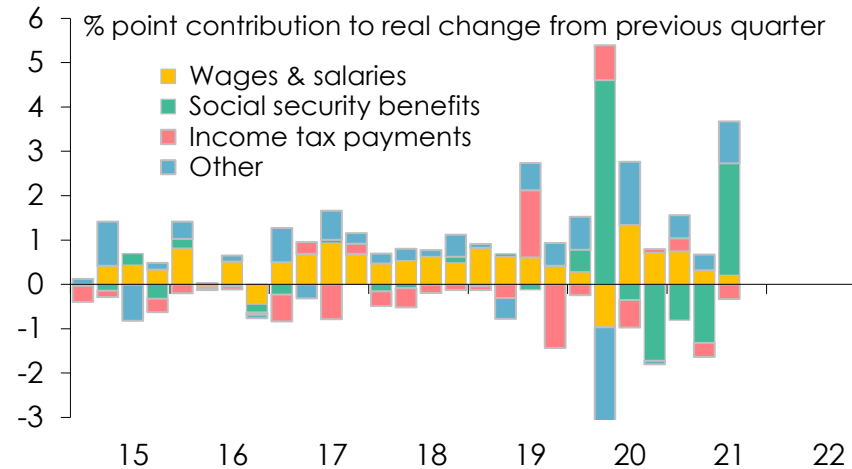
Household spending fell 4.8% in Q3 due to lockdowns, but a 3.3% rise in public spending limited the fall in real GDP to 1.9%

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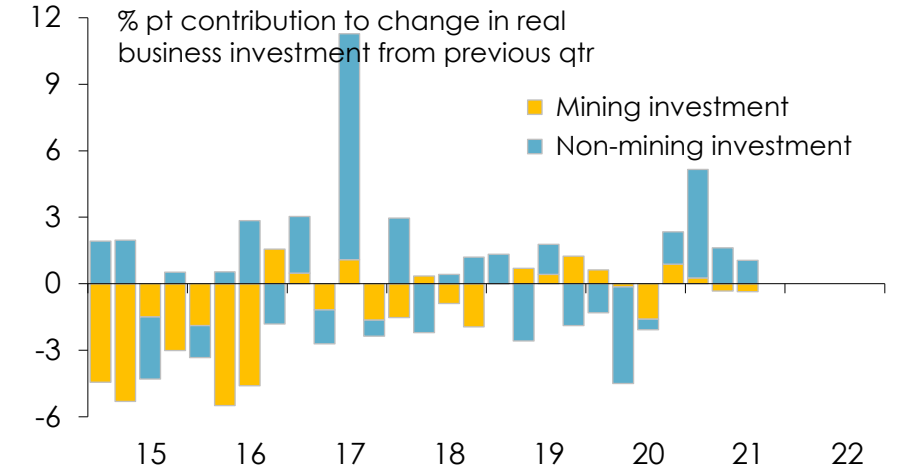
Quarterly change in real GDP



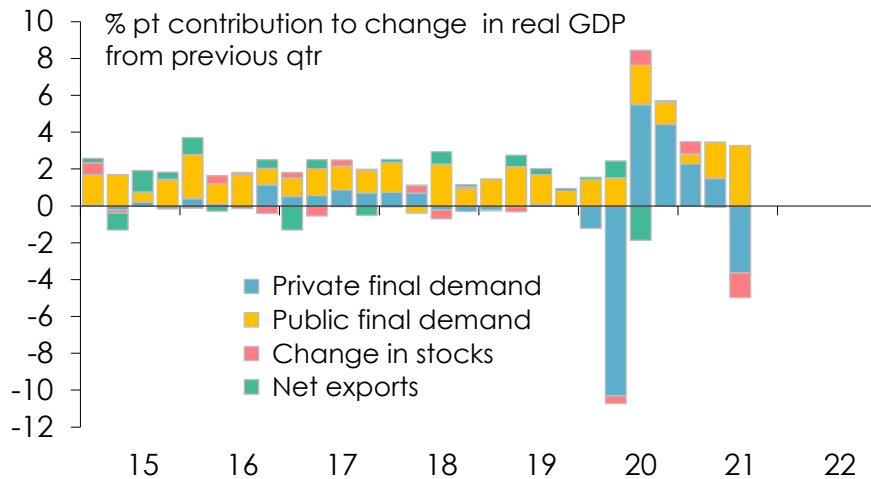
Household disposable income



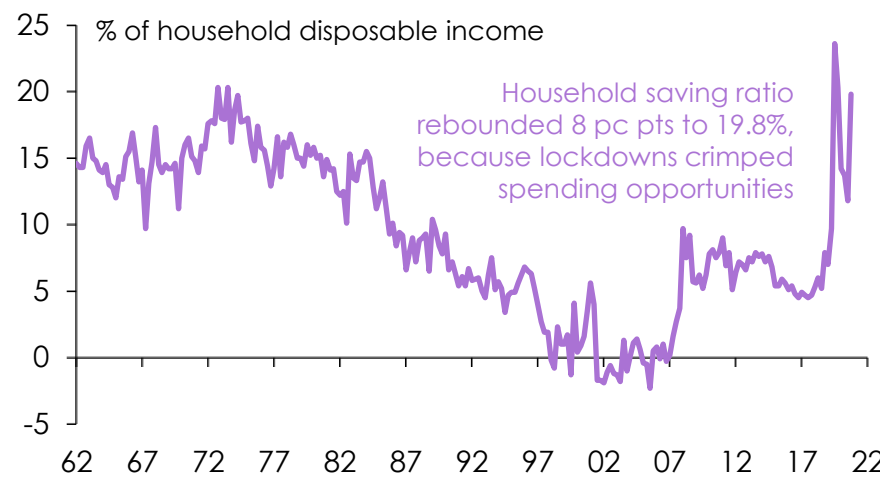
Business investment expenditure



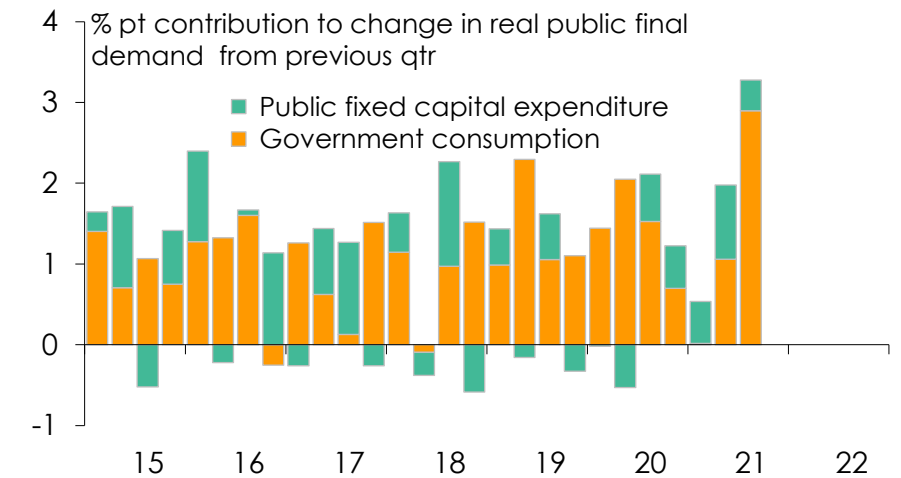
Contributions to quarterly GDP growth



Household saving rate



Public expenditure



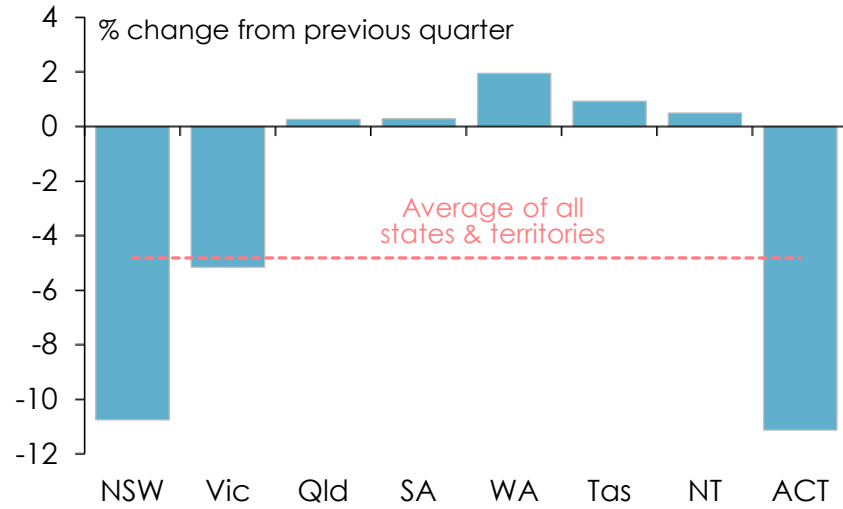
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter national accounts will be released on 2nd March 2022. [Return to "What's New"](#).

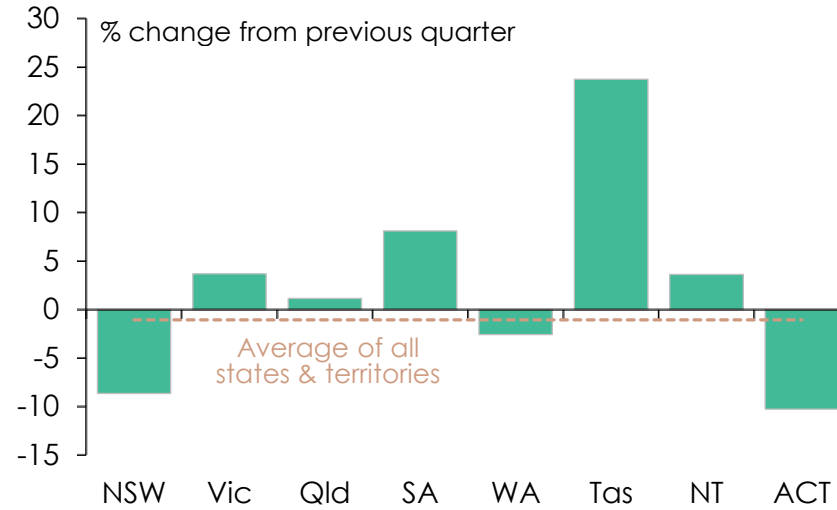
The contraction in Q3 was due to sharp downturns in private sector spending in NSW, the ACT and Victoria during their lockdowns

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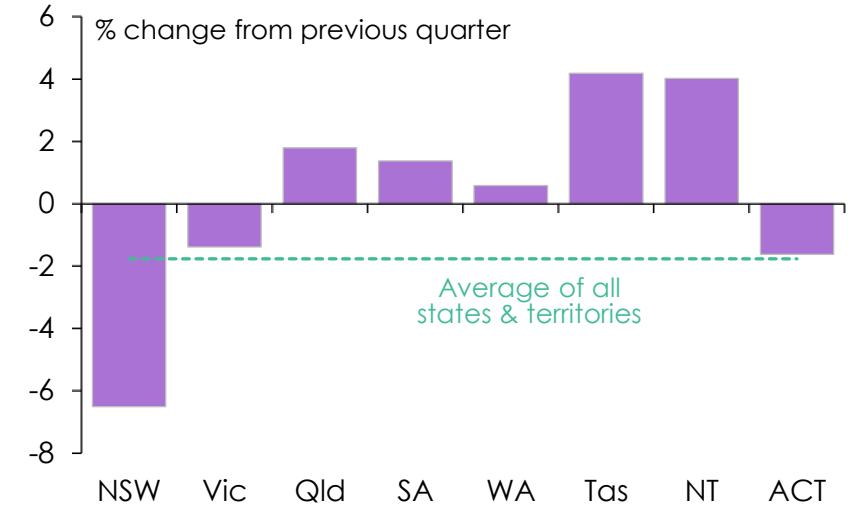
Household consumption



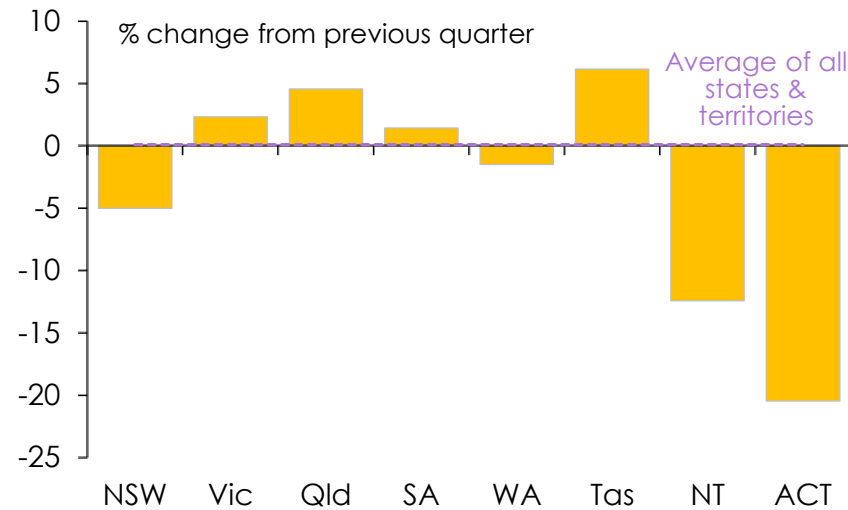
Business investment



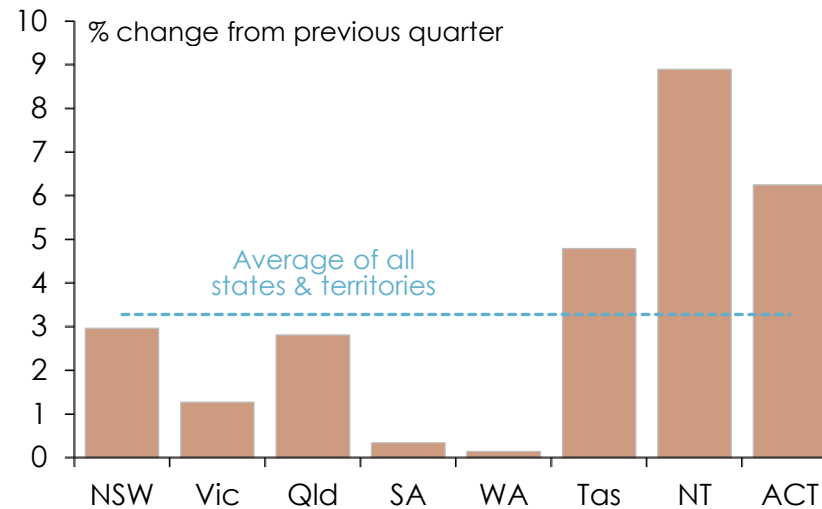
State final demand



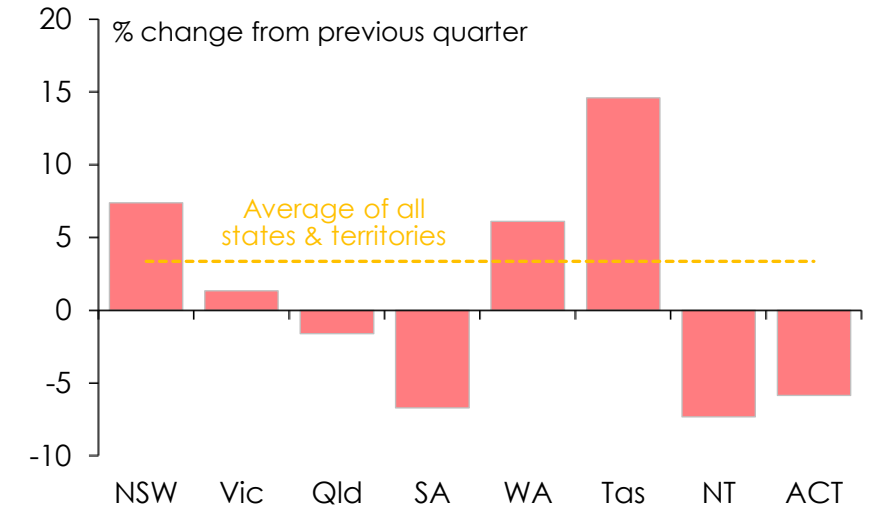
Dwelling investment



Public spending



International exports

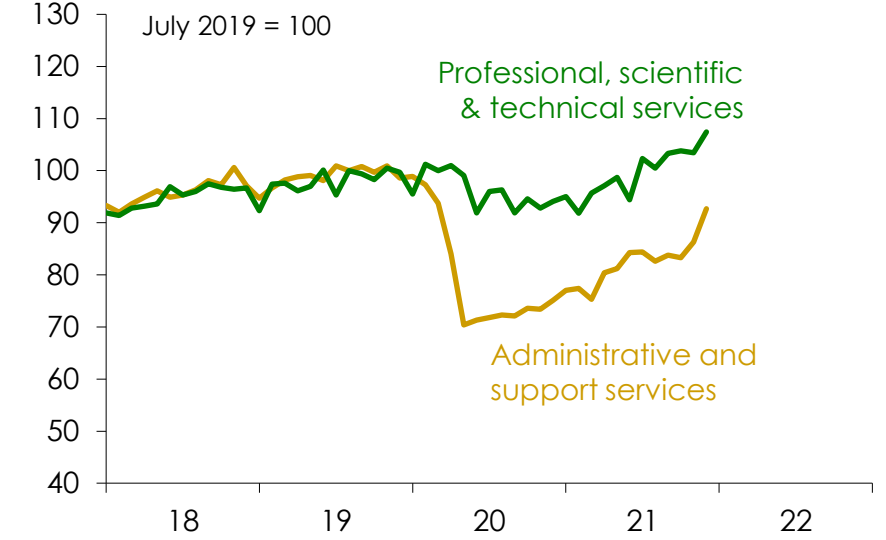
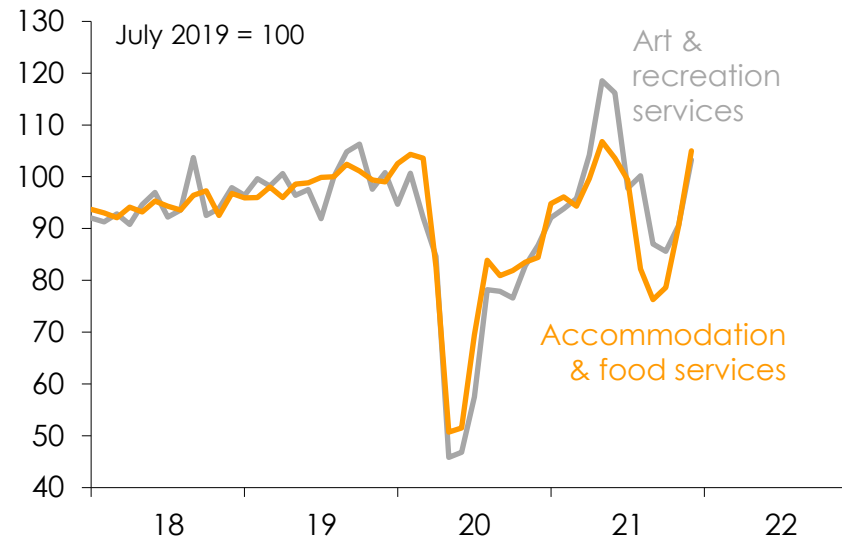
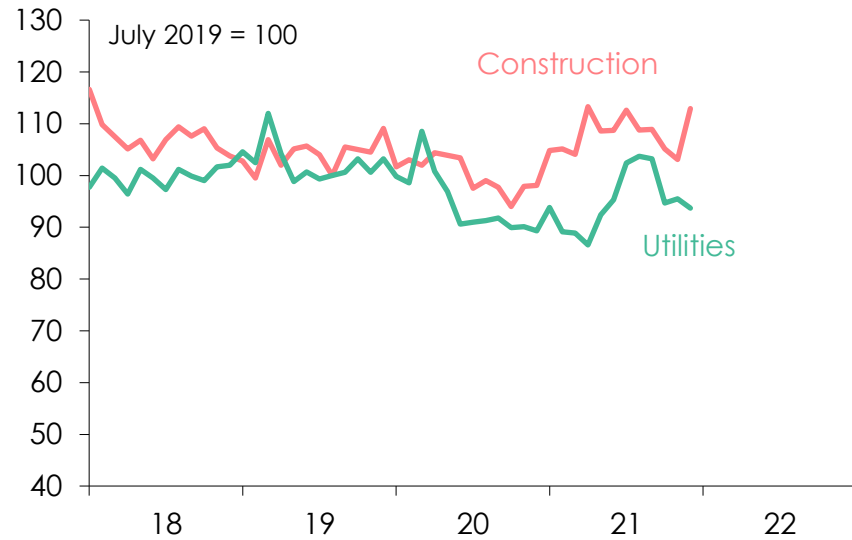
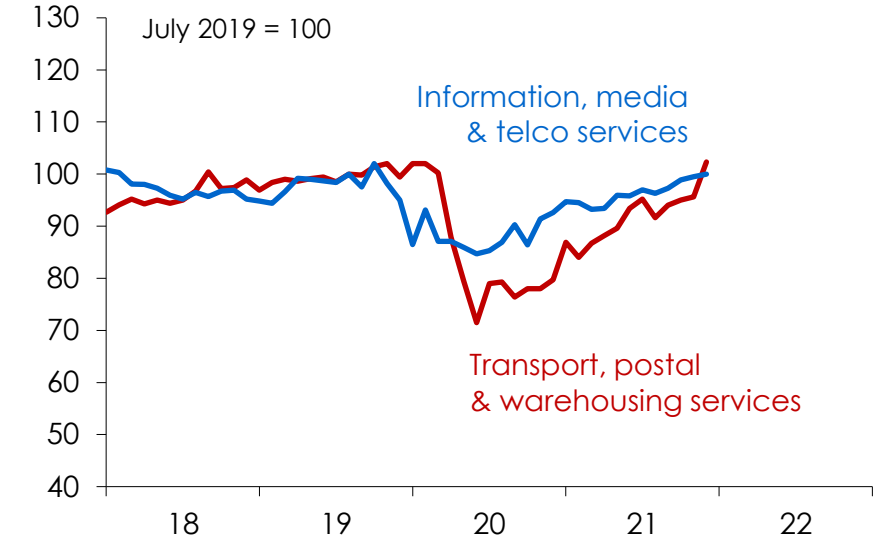
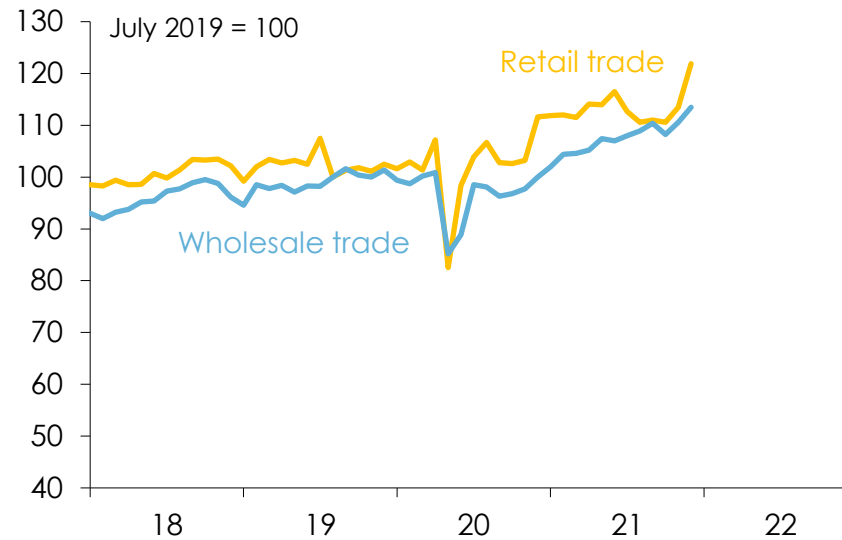
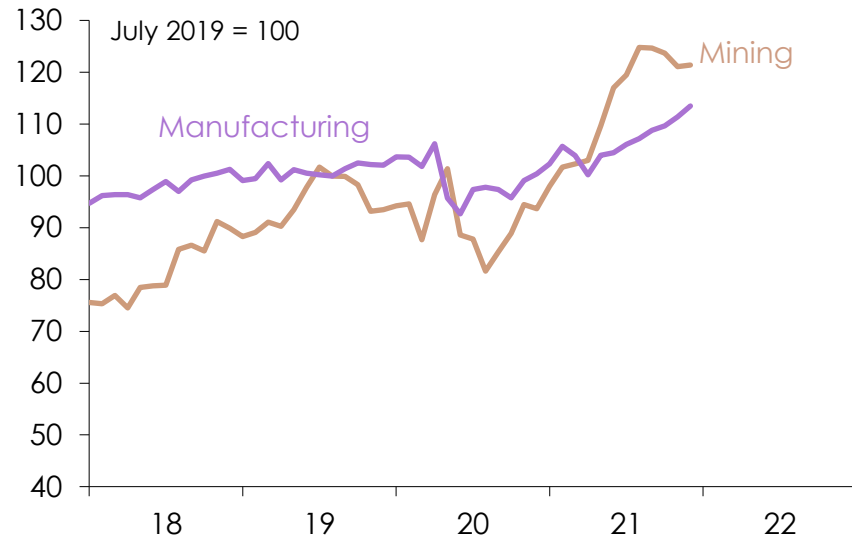


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; [Balance of Payments and International Investment Position, Australia](#), September quarter 2021.

12 out of 13 sectors experienced a rise in turnover in November – with the largest gains in the sectors which had been most affected by lockdowns

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Indicators of business turnover, by industry

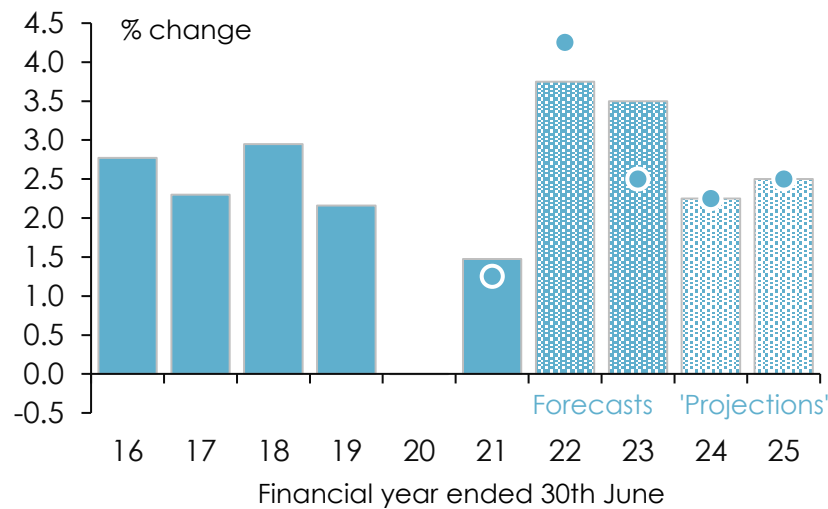


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), November 2021. December data will be released on 10th February. [Return to "What's New"](#).

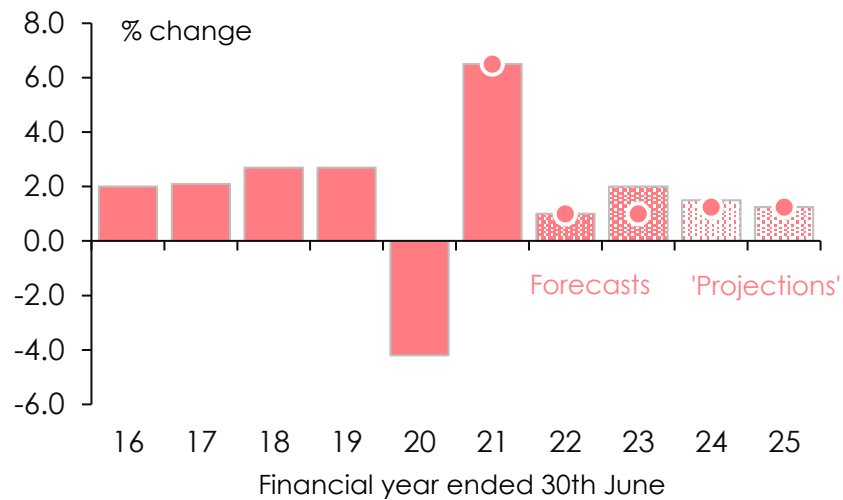
Treasury revised up its forecasts for economic and employment growth in 2022-23, and for wages growth through 2024-25, in this week's MYEFO

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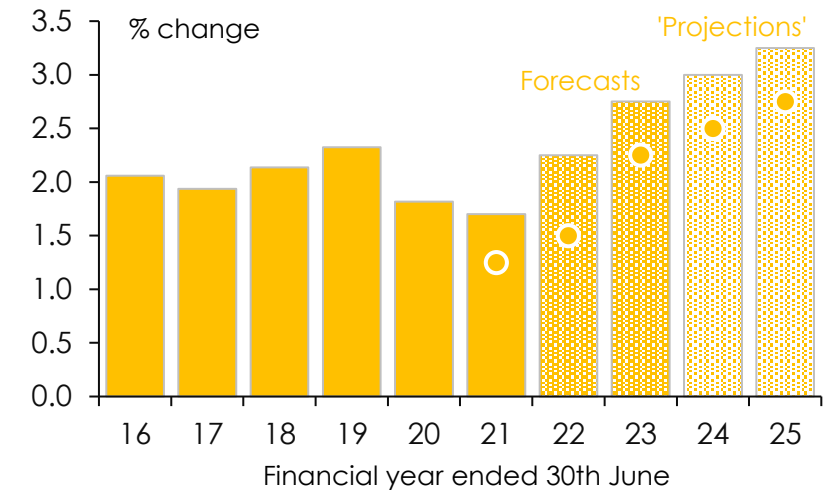
Real GDP



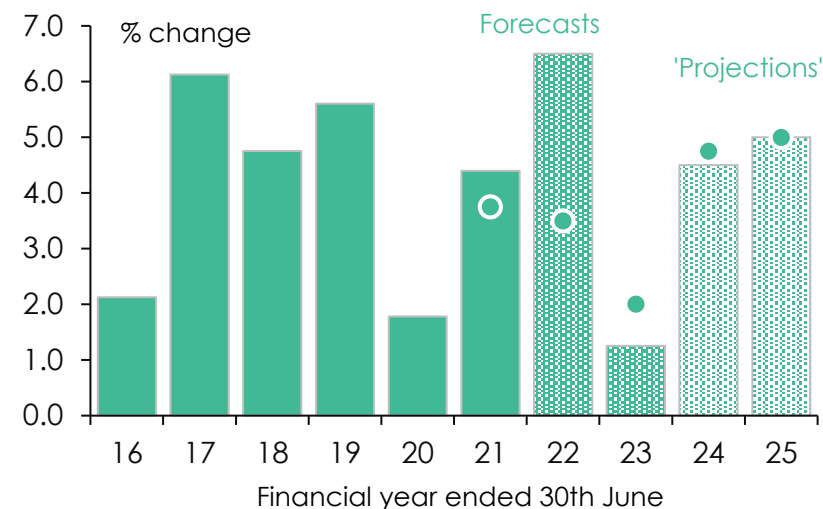
Employment



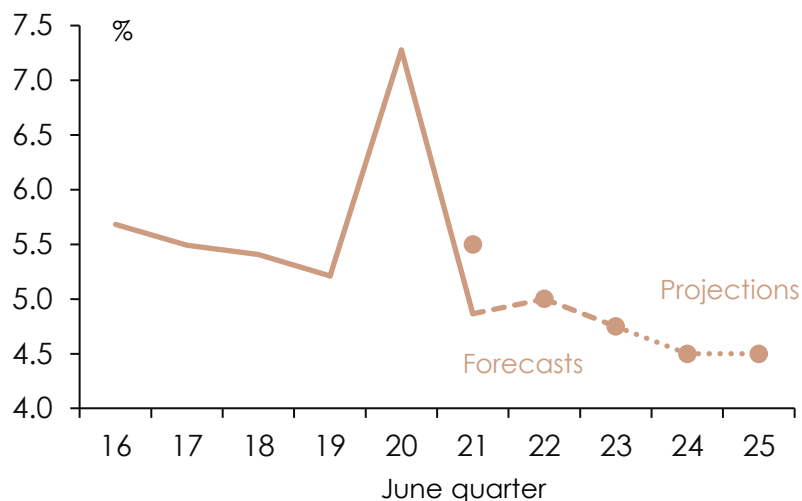
Wages



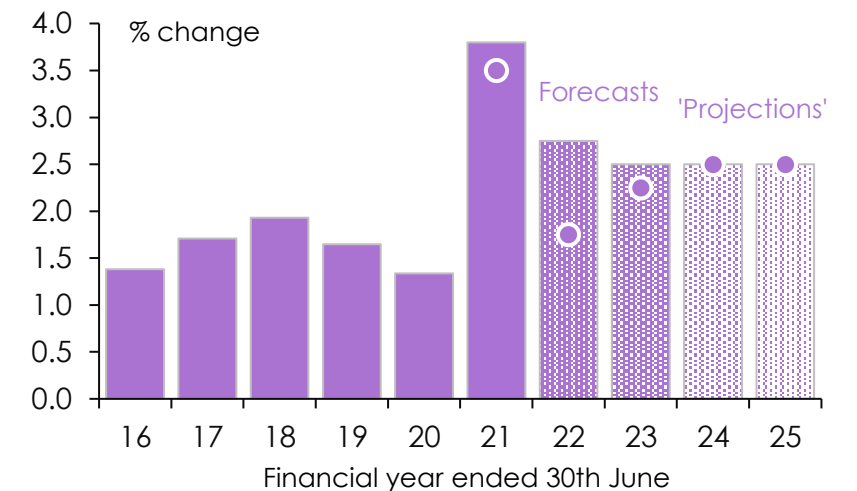
Nominal GDP



Unemployment rate



Consumer prices

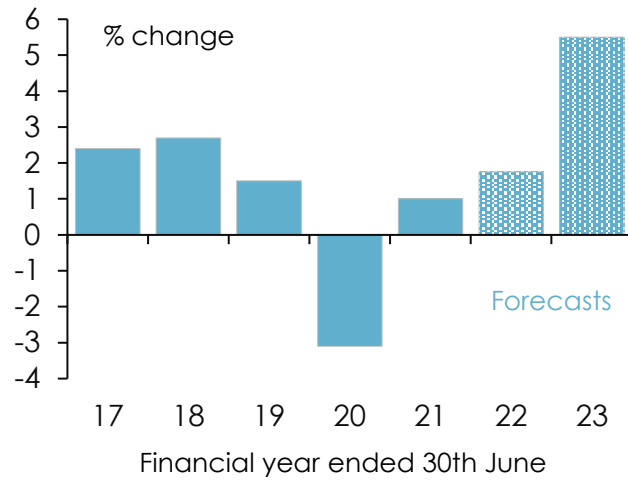


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. The omicron variant is assumed to have no significant impact on 're-opening plans' or require a reimposition of widespread restrictions. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 and +235K in 2024-25; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

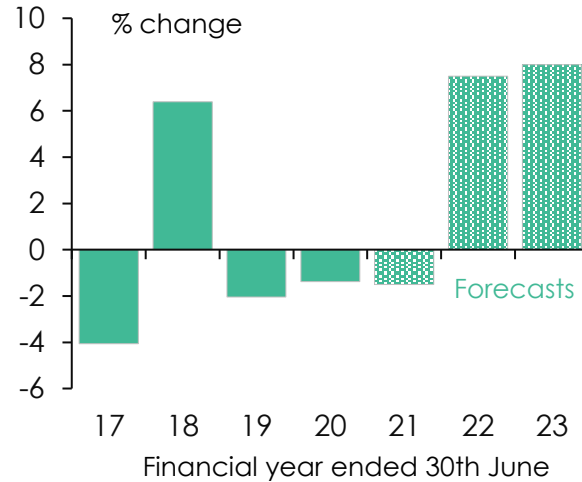
Treasury expects economic growth to be driven by private consumption and business investment offsetting weaker net exports

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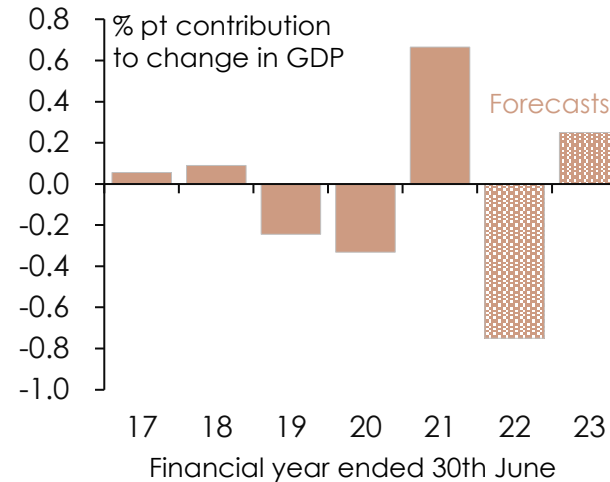
Household consumption



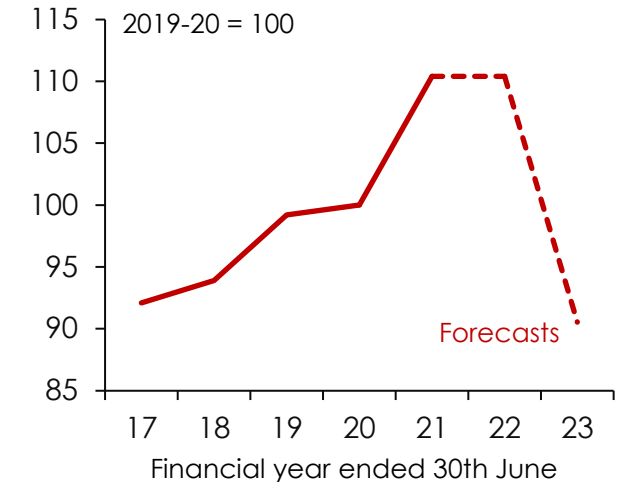
Business investment



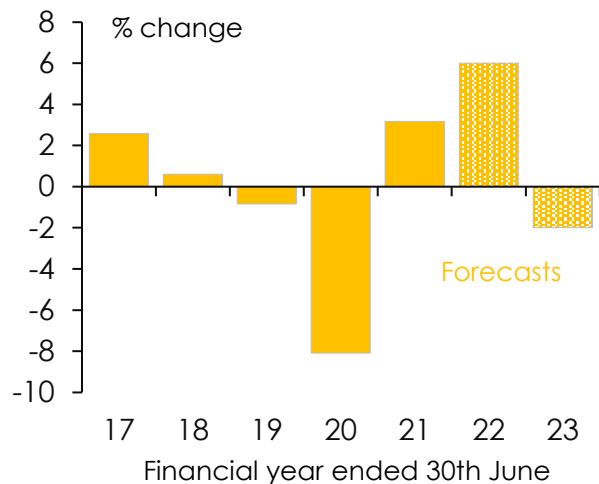
Change in inventories



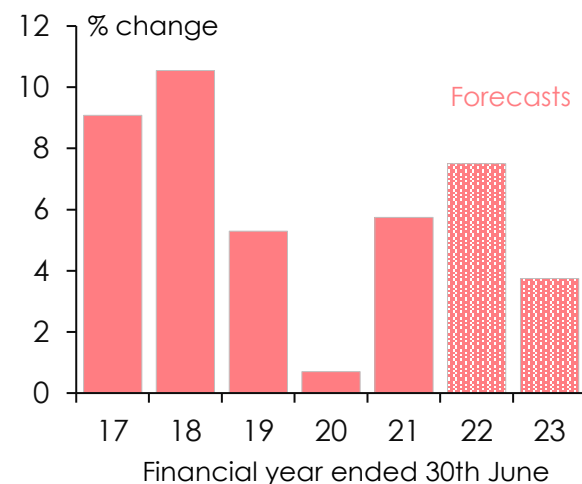
Terms of trade



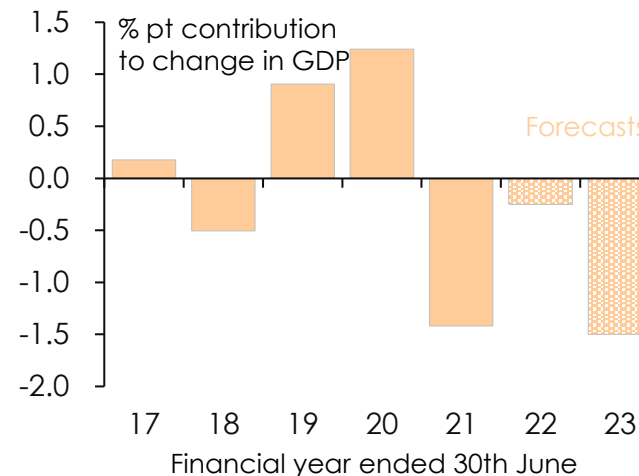
Dwelling investment



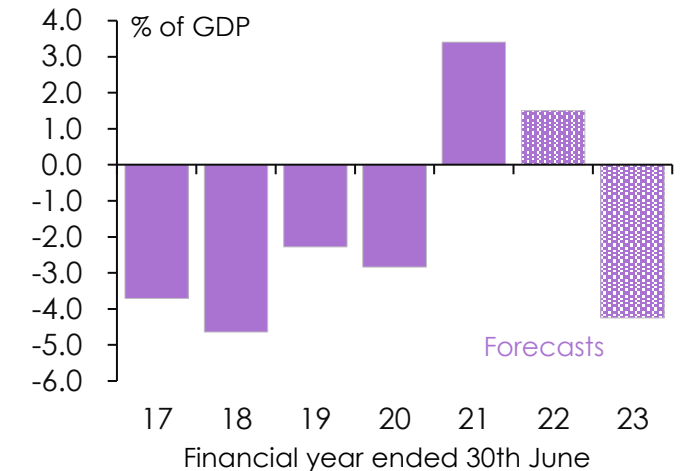
Public spending



Net exports



Current account balance



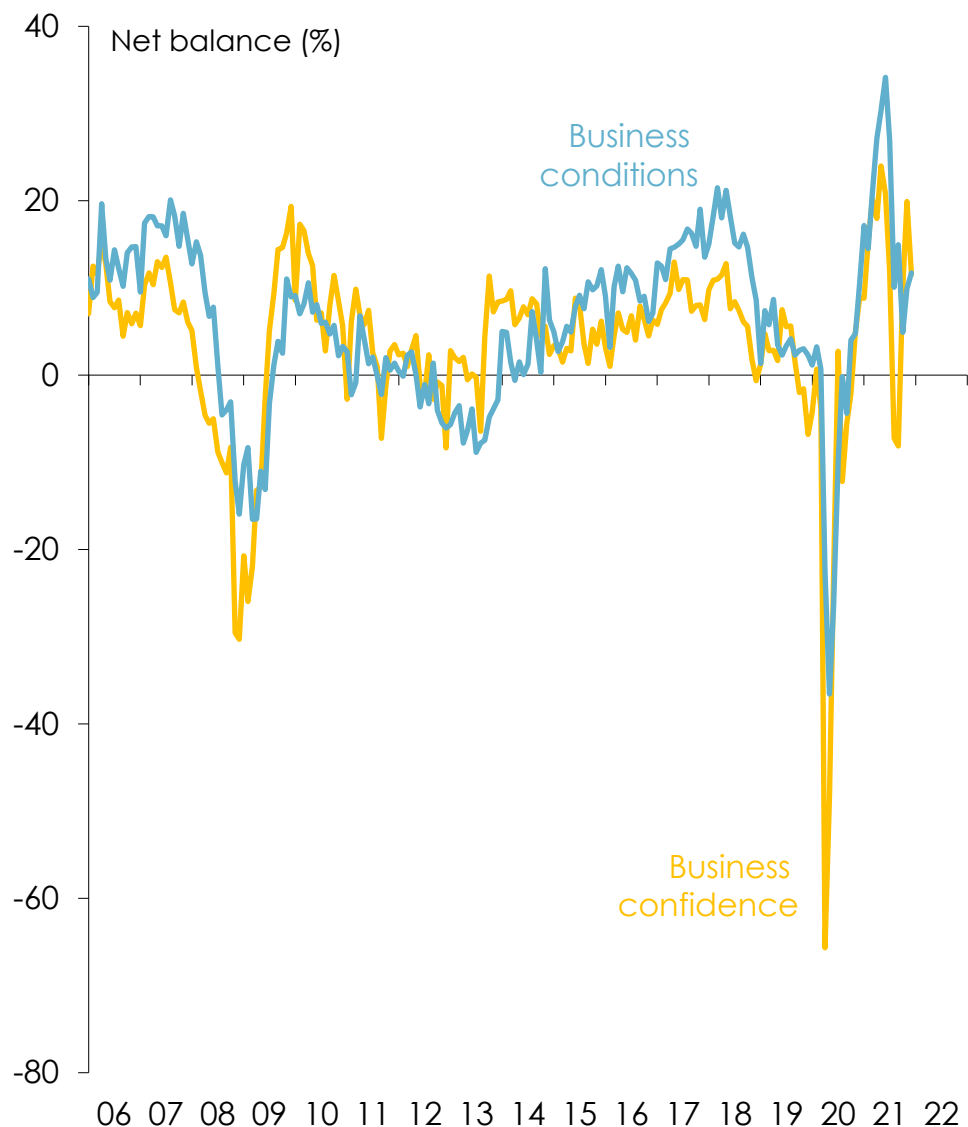
Note: Business investment and public spending exclude transactions in second-hand assets. The omicron variant is assumed to have no significant impact on 're-opening plans' or require a reimposition of widespread restrictions. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

The business sector

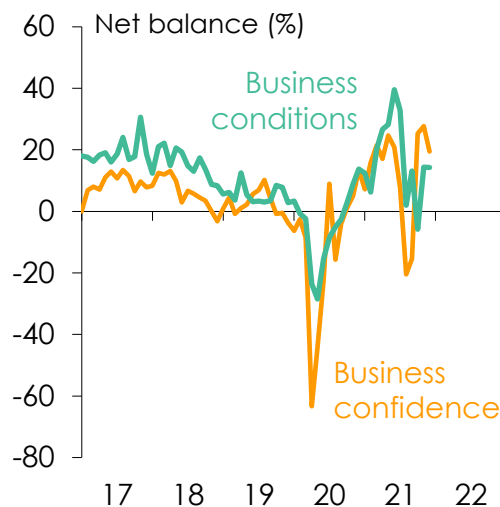
Business confidence eased in November reflecting falls in NSW and Victoria – although it remains high by historical standards

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

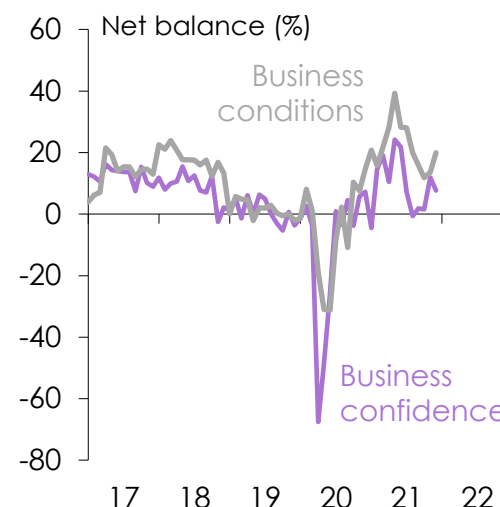
National business confidence & conditions



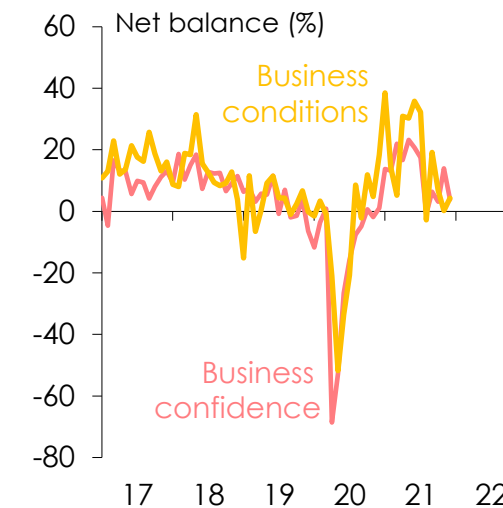
New South Wales



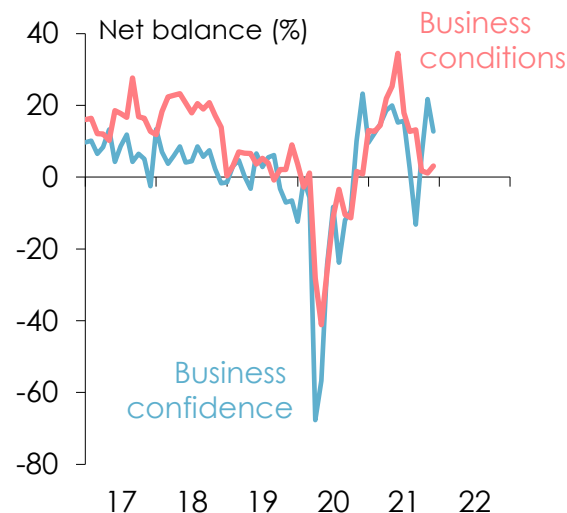
Queensland



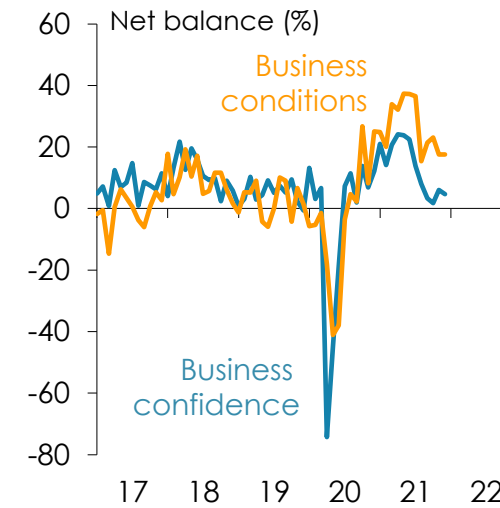
South Australia



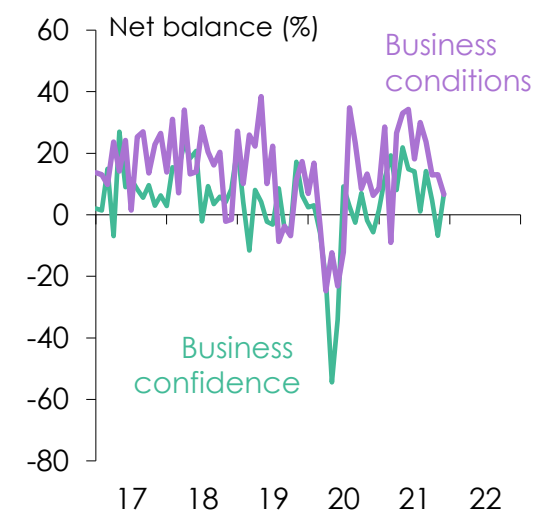
Victoria



Western Australia



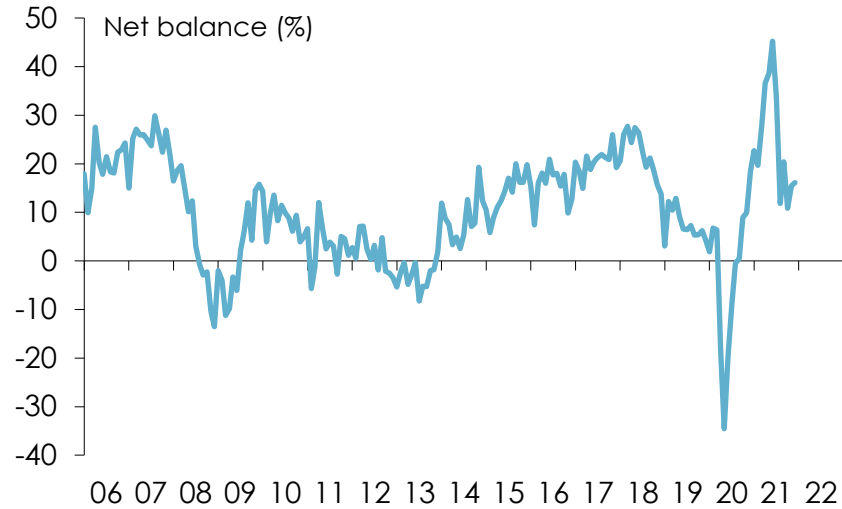
Tasmania



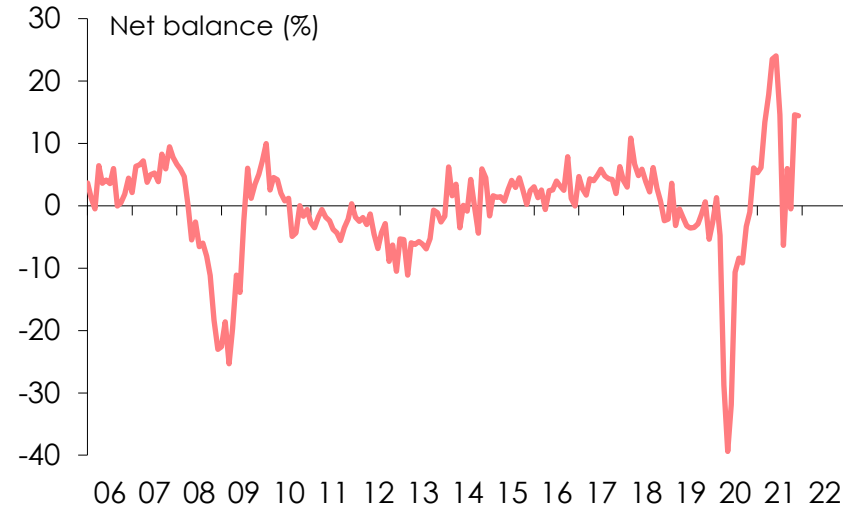
Business conditions improved slightly in November, with both hiring and capex intentions picking up ...

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

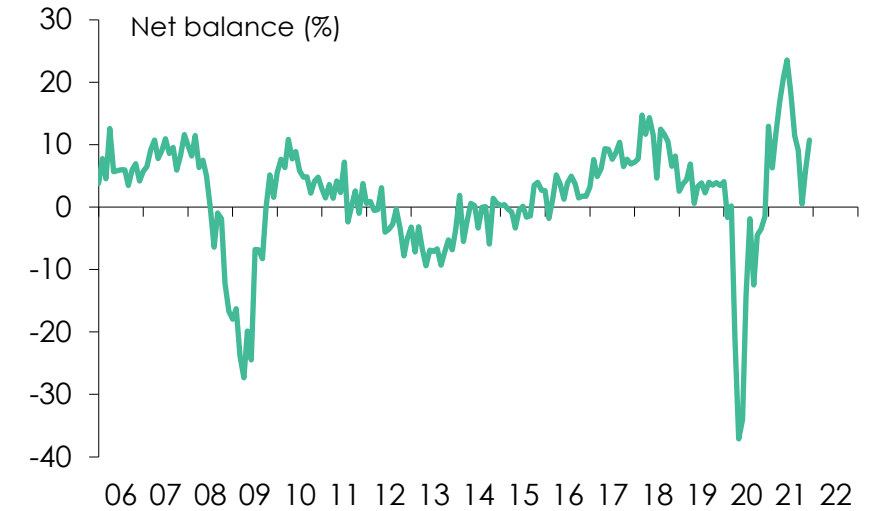
Trading conditions



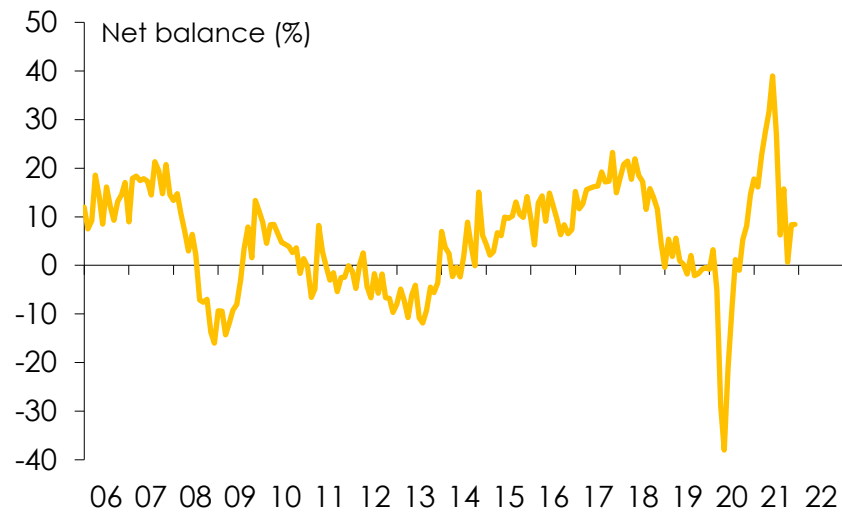
Forward orders



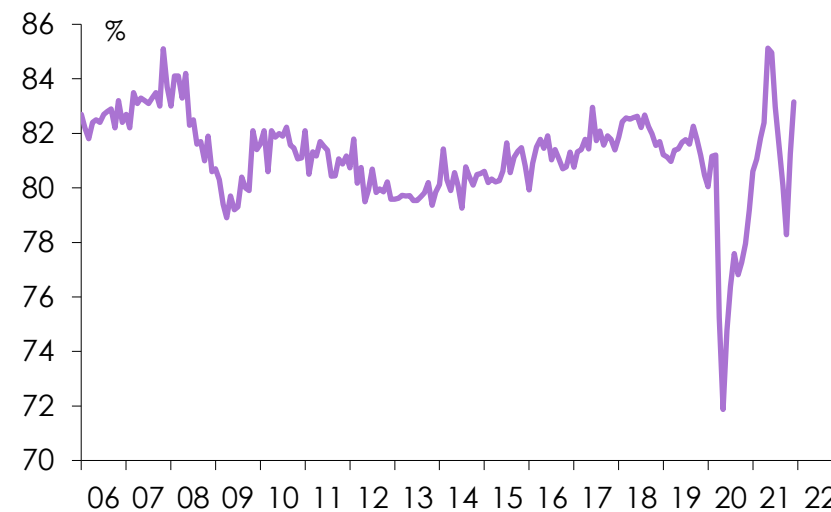
Employee hiring intentions



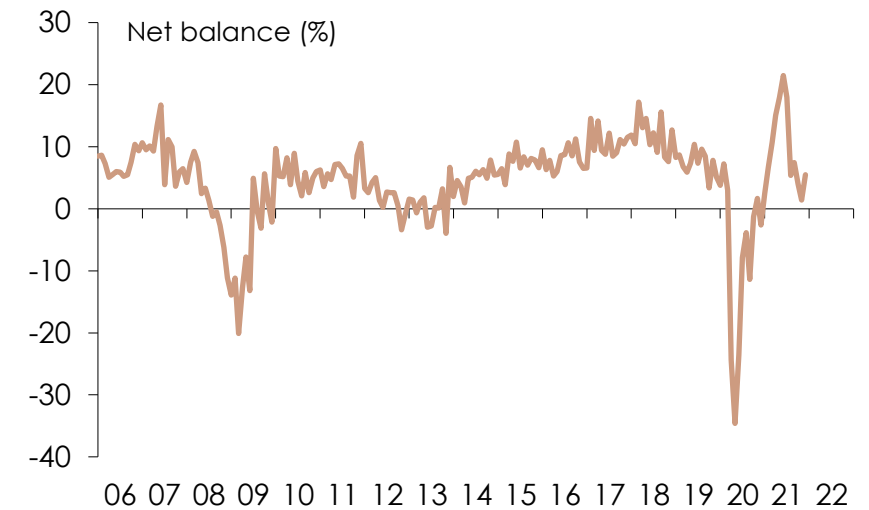
Profitability



Capacity utilization



Capital expenditure intentions

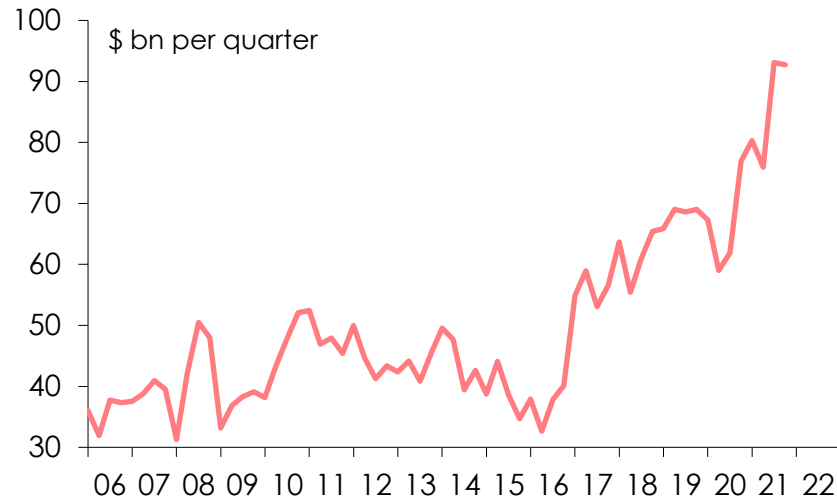


Source: National Australia Bank [Monthly Business Survey](#), November 2021; December survey results will be released on 25th January 2022. [Return to "What's New"](#).

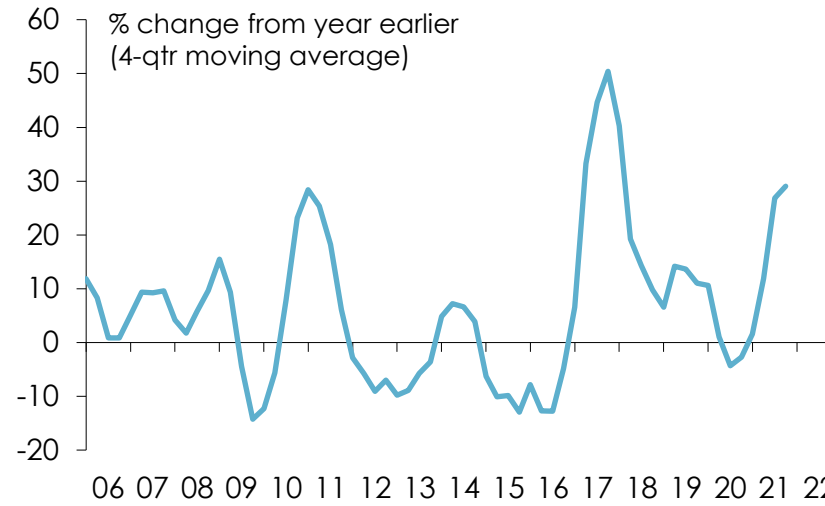
Company profits have grown strongly over the past five years, largely driven by the mining sector

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

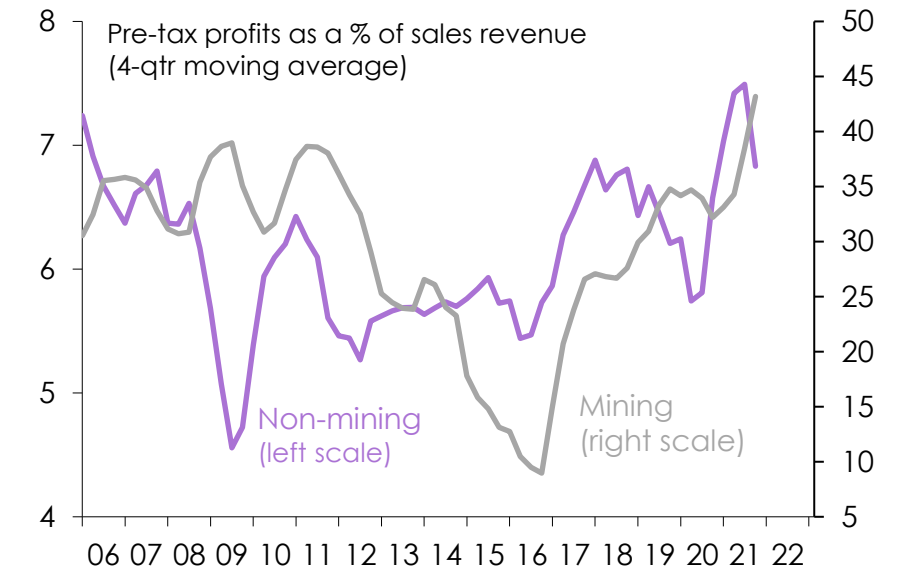
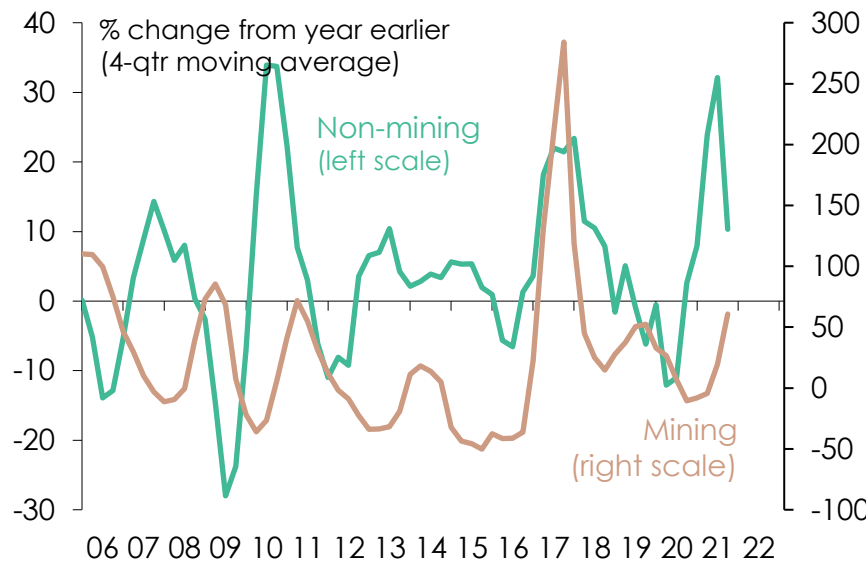
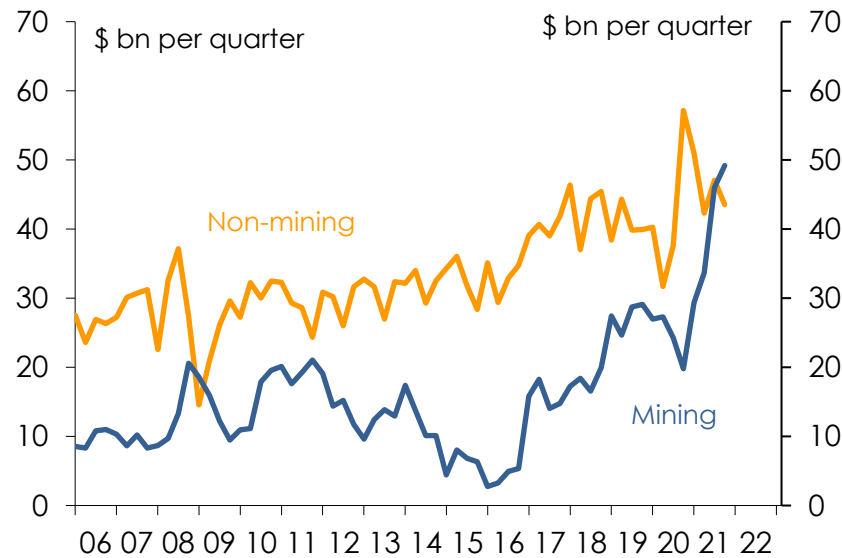
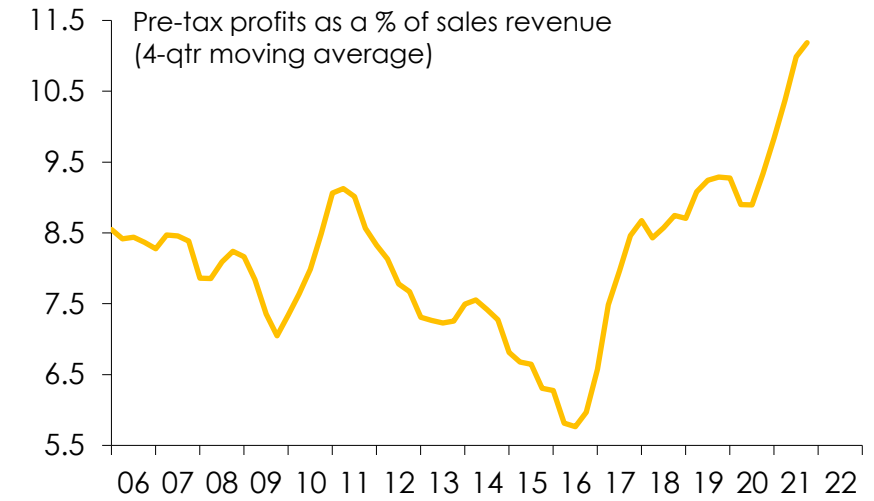
Pre-tax company profits



Pre-tax company profits growth



Pre-tax profit margins

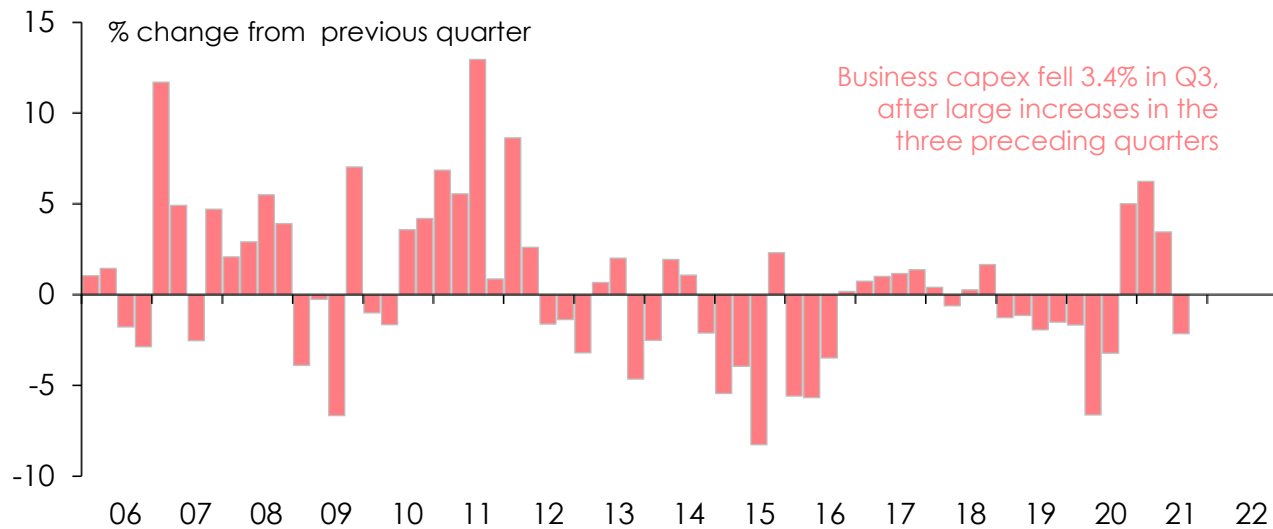


Note: Data depicted in these charts excludes banks and other deposit-taking financial intermediaries, health and general insurers, education and training, and health care and social assistance providers. Source: ABS, [Business Indicators, Australia](#), September 2021. December quarter data will be released on 28th February. [Return to "What's New"](#).

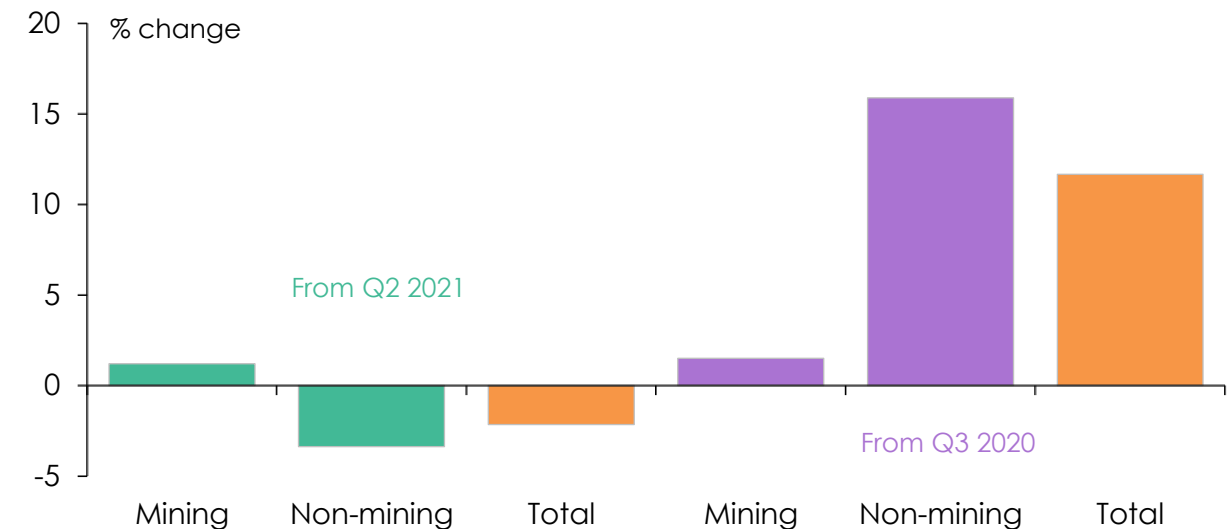
Business capex declined by 3.4% in Q3, after large increases in the three preceding quarters, mainly due to falls in NSW, Victoria and the ACT

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

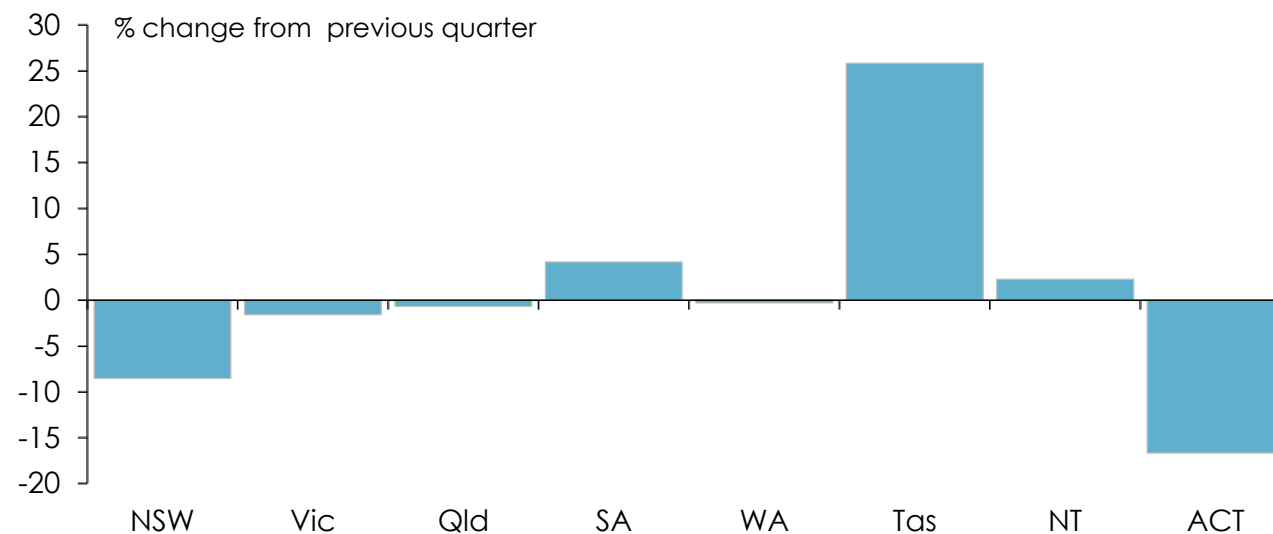
Real business new fixed capital expenditure



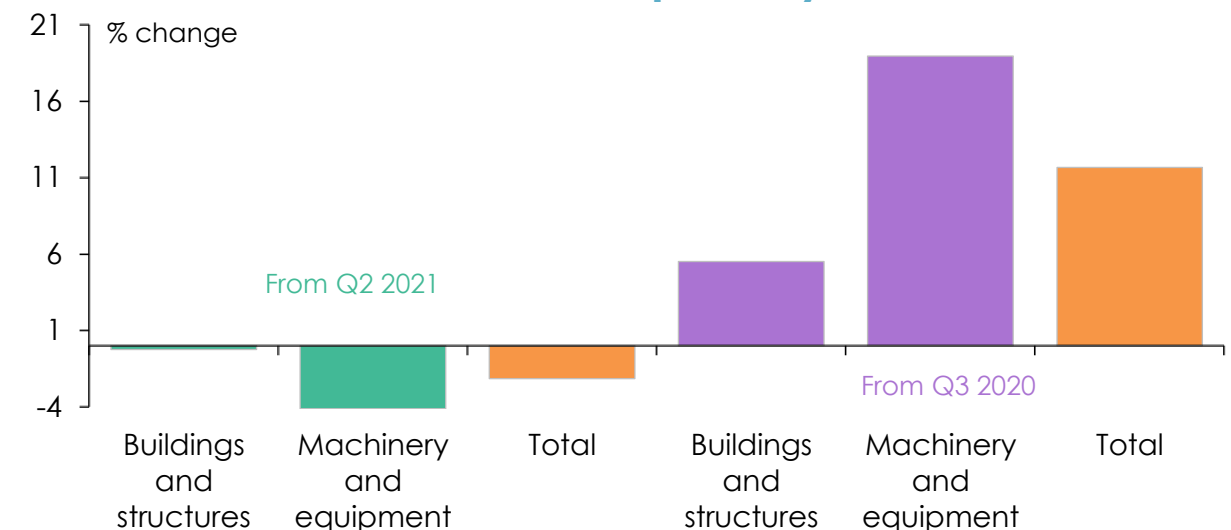
Real business new fixed capex, by industry, Q3



Real business new fixed capex, by state, Q3 2021



Real business new fixed capex, by asset, Q3

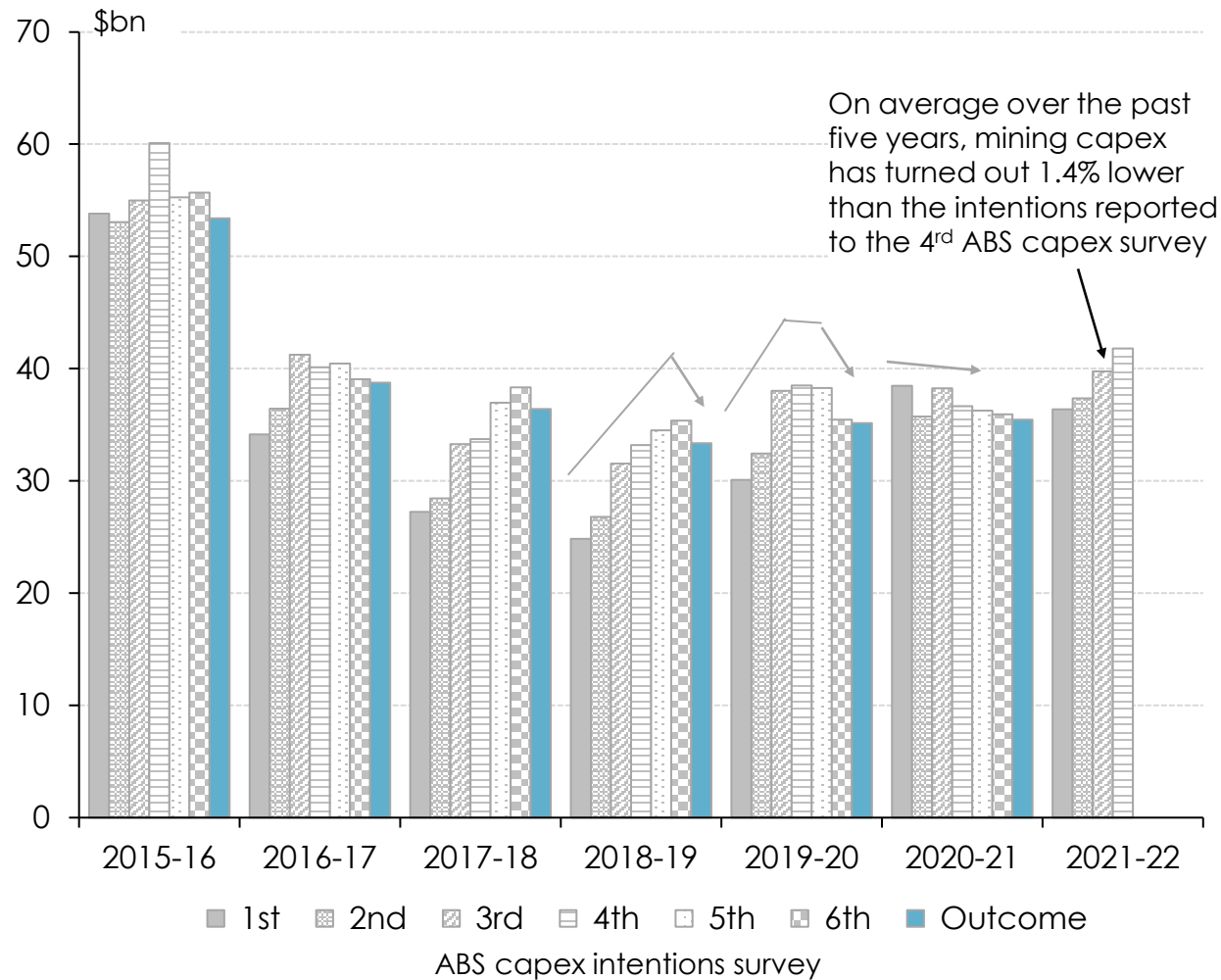


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); December quarter data will be released on 24th February 2022. [Return to "What's New"](#).

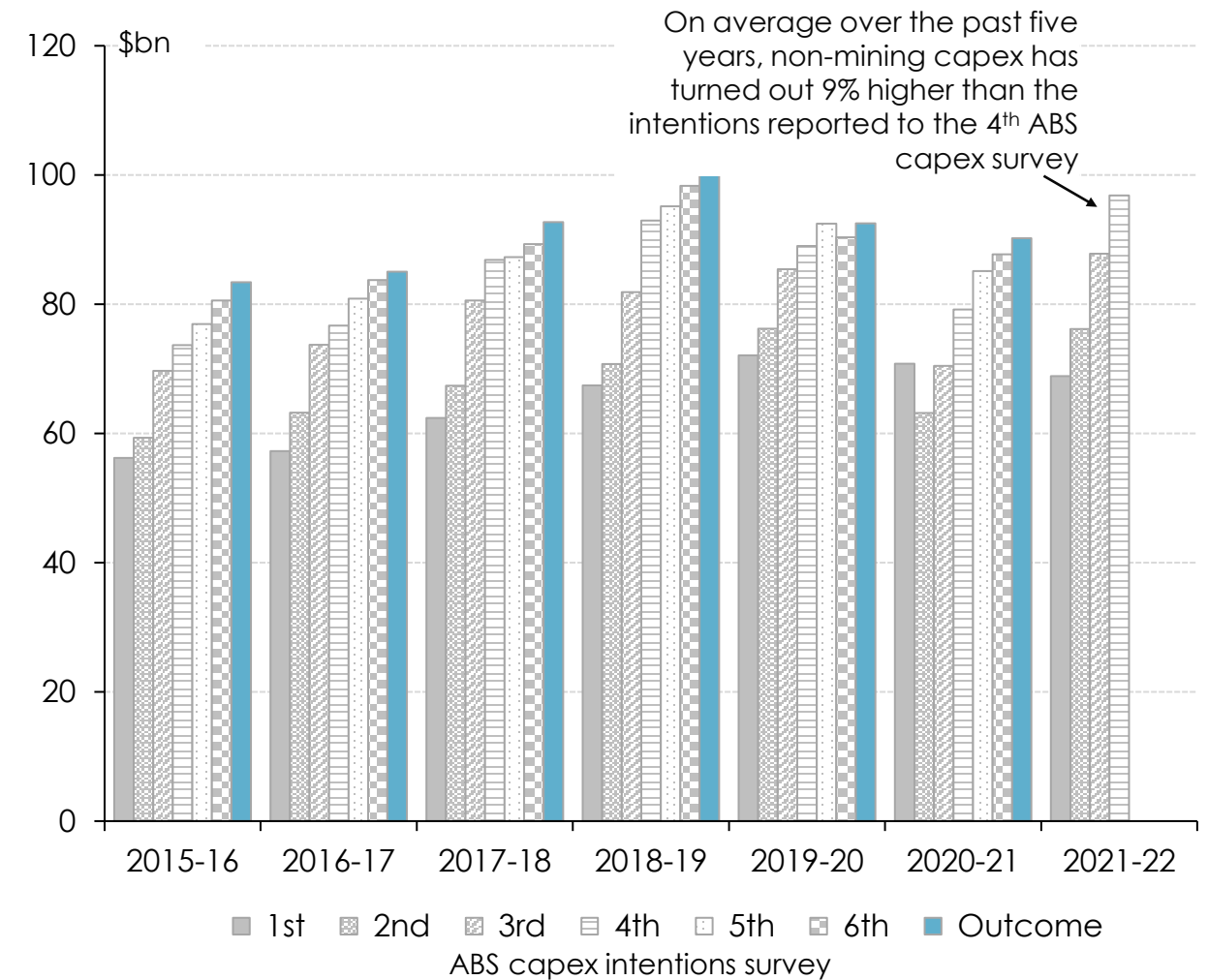
However businesses have again revised up their capex intentions for 2021-22 which if realized as in recent years points to an increase of 16½%

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining



Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & November, the fifth in January & February of the financial year, and the sixth in May & June. The outcome (actual capital expenditure in the financial year) is determined from the survey taken in July & August after the end of the financial year. From the December quarter 2020 the survey includes the education & training, and health care & social assistance sectors. The estimates shown above are in nominal terms.

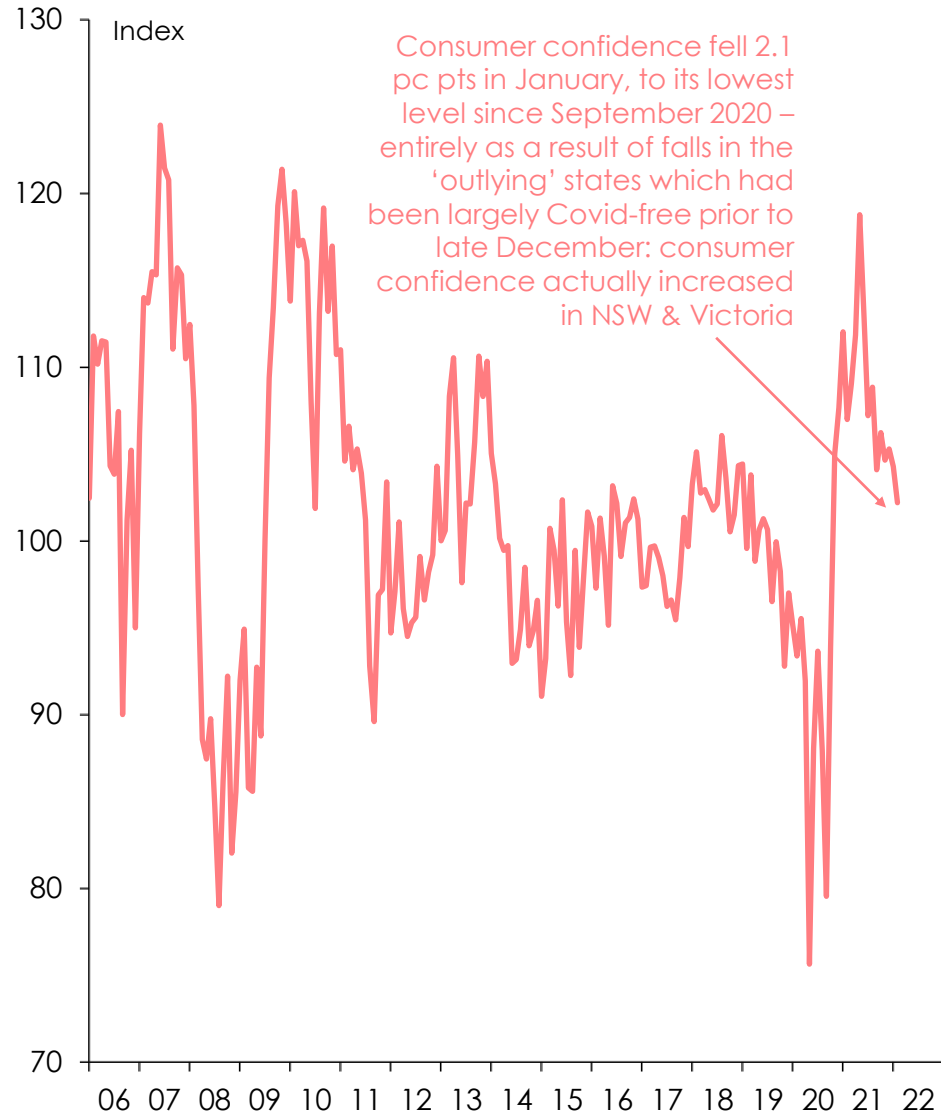
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 24th February 2022). [Return to "What's New"](#).

The household sector and consumer spending

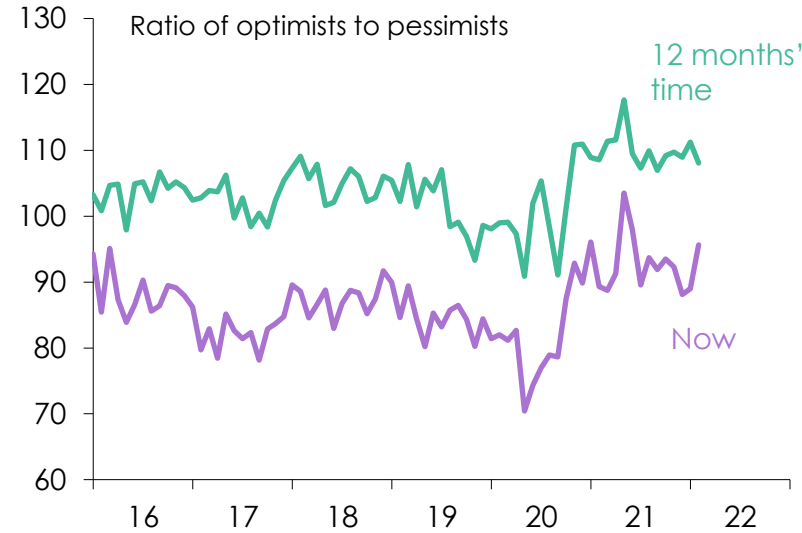
Consumer confidence fell 2.1 pc pts in January, to a 16-month low, reflecting falls in the (hitherto largely Covid-free) 'outlying' states

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

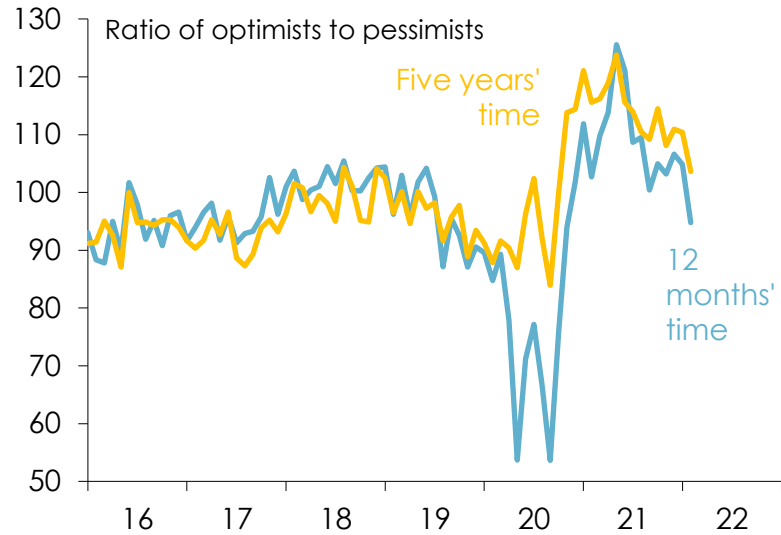
Consumer confidence index



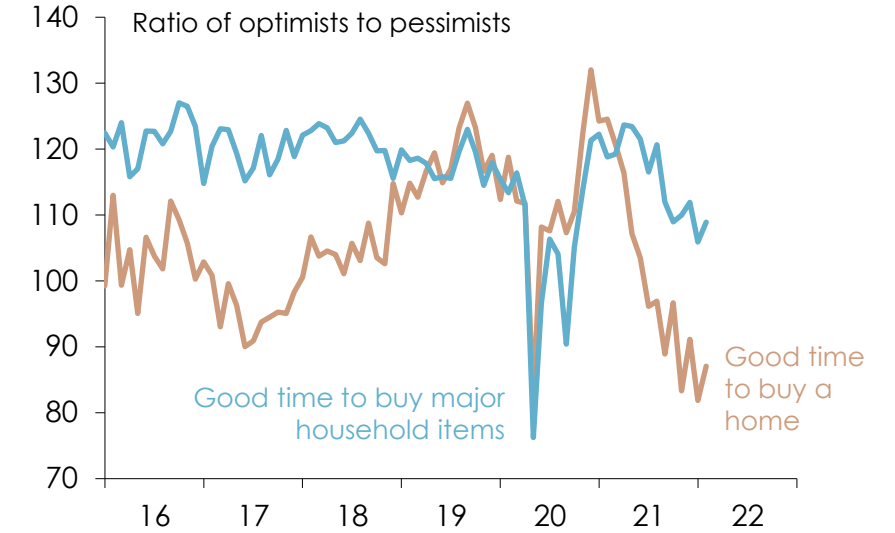
Household finances assessment



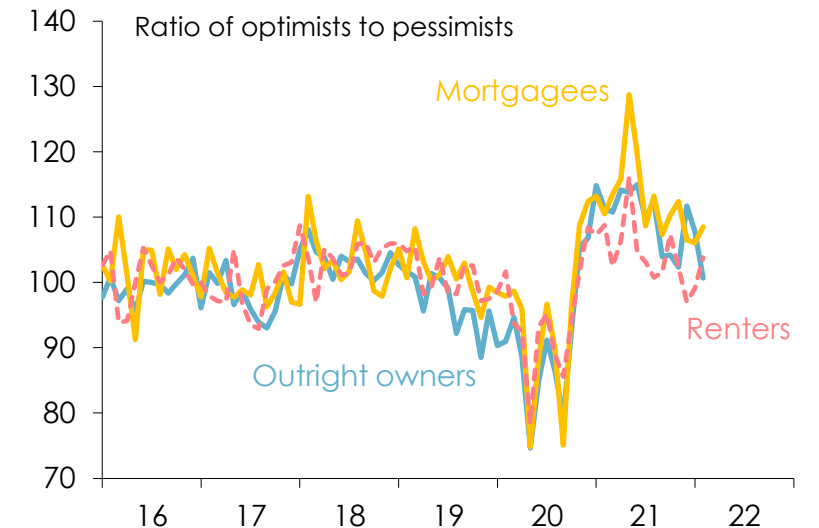
Economic conditions assessment



Buying conditions assessment



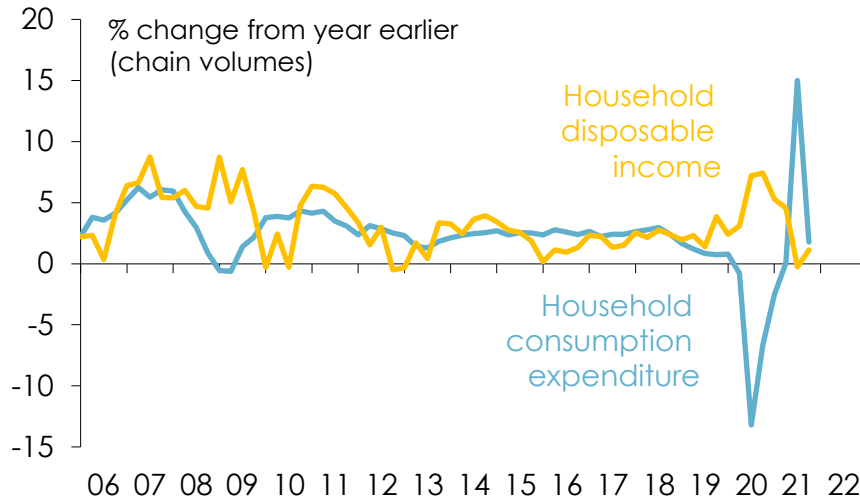
Confidence by housing tenure



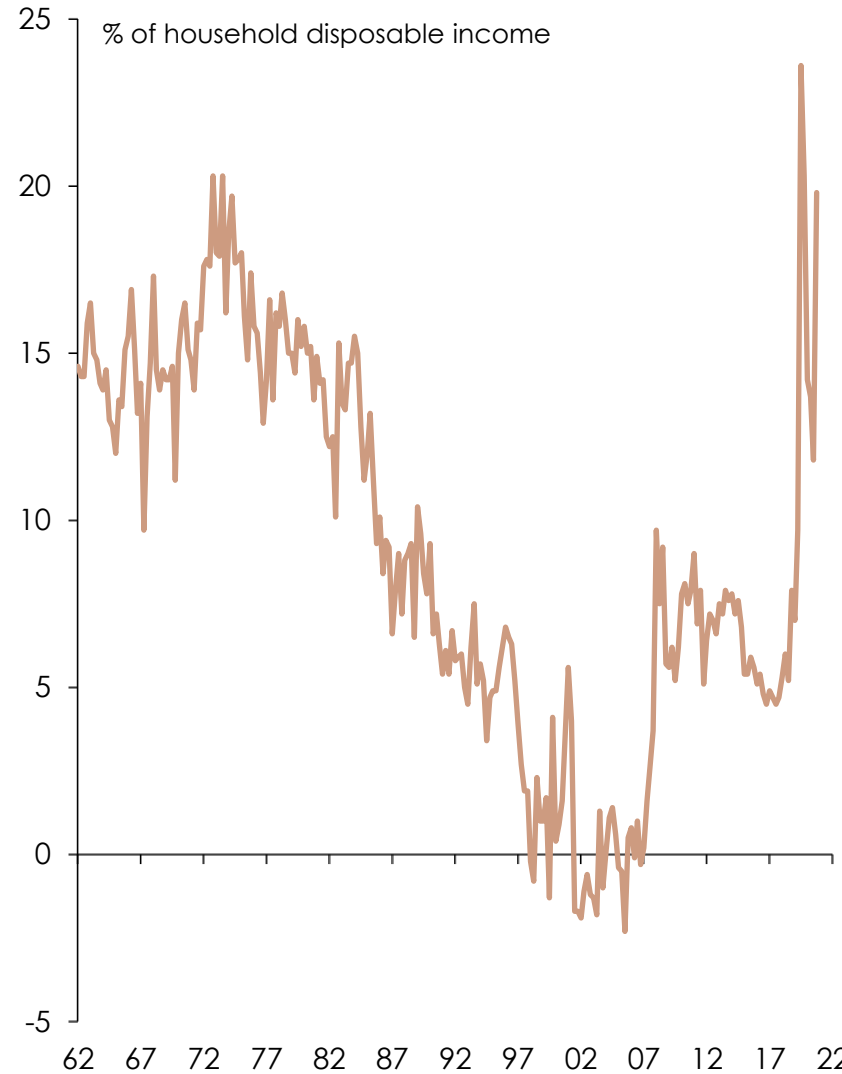
Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

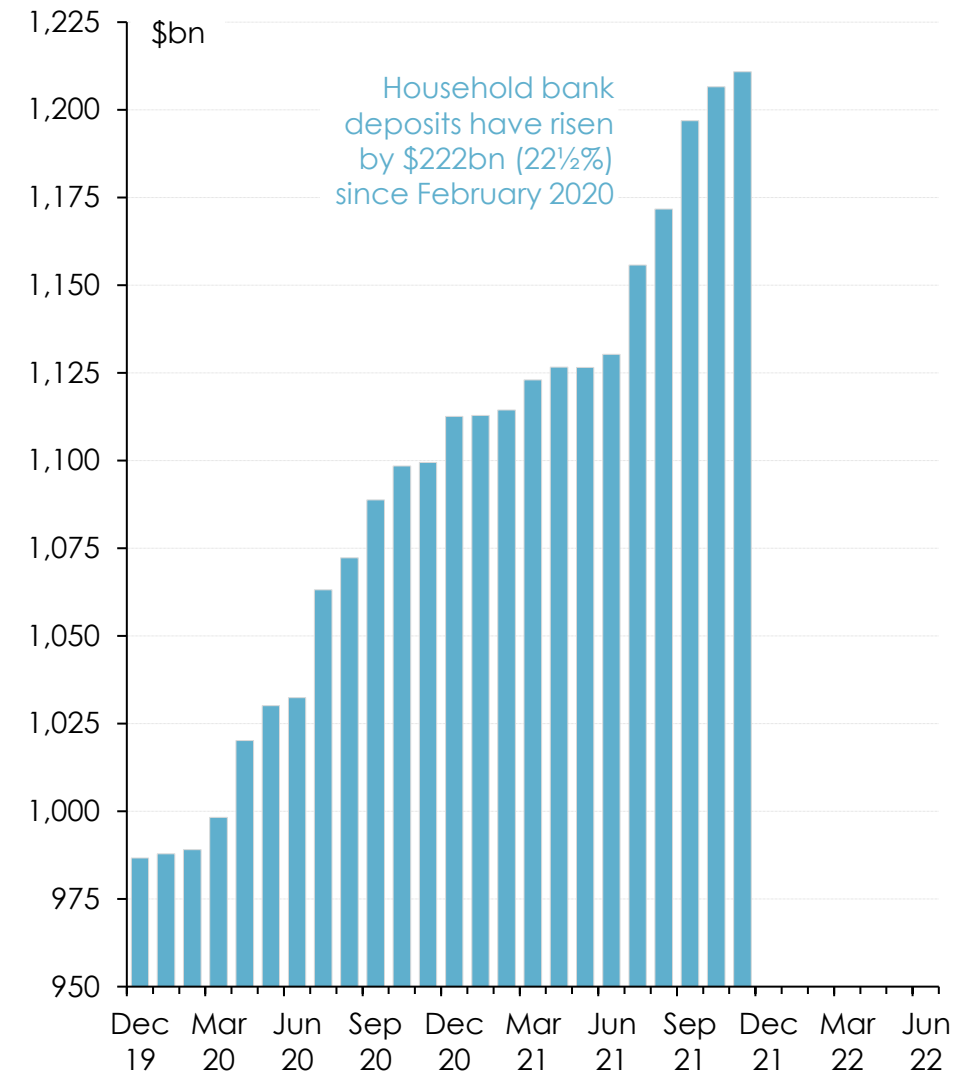
Household income and spending



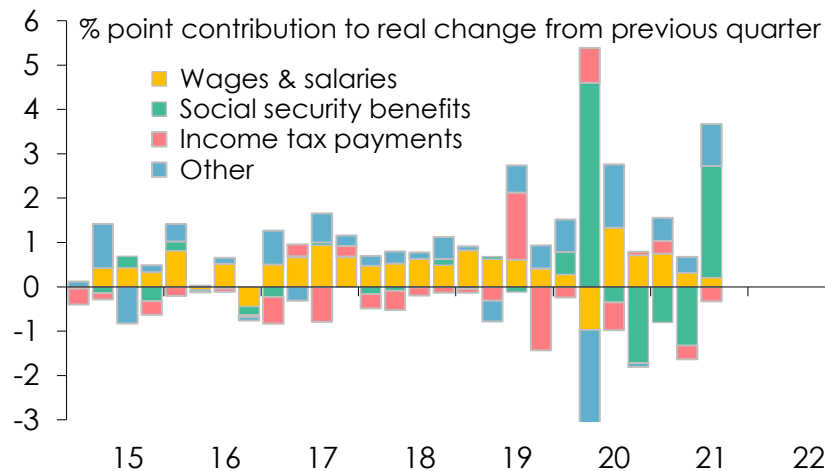
Household saving ratio



Household bank deposits



Sources of household income

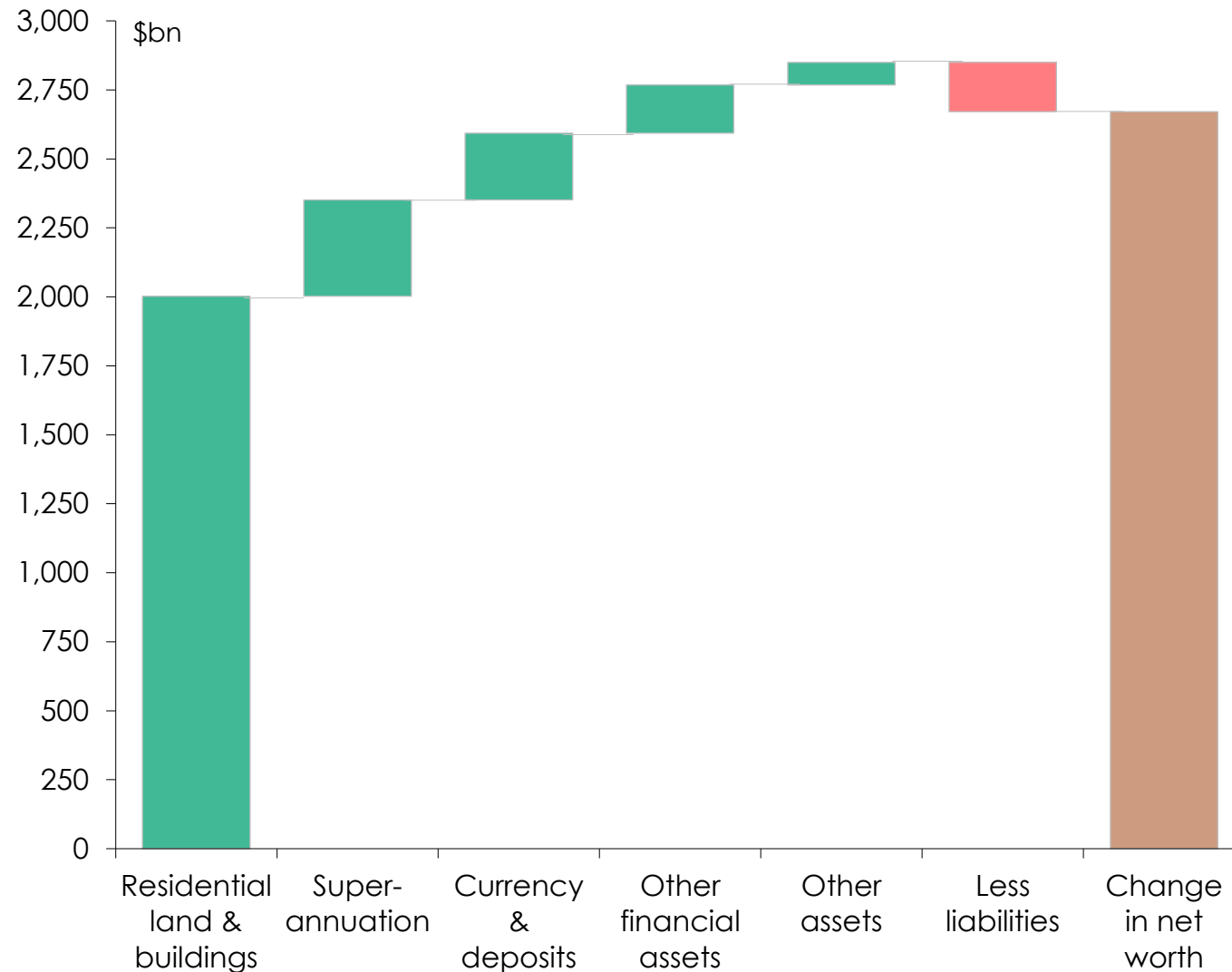


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). [Return to "What's New"](#).

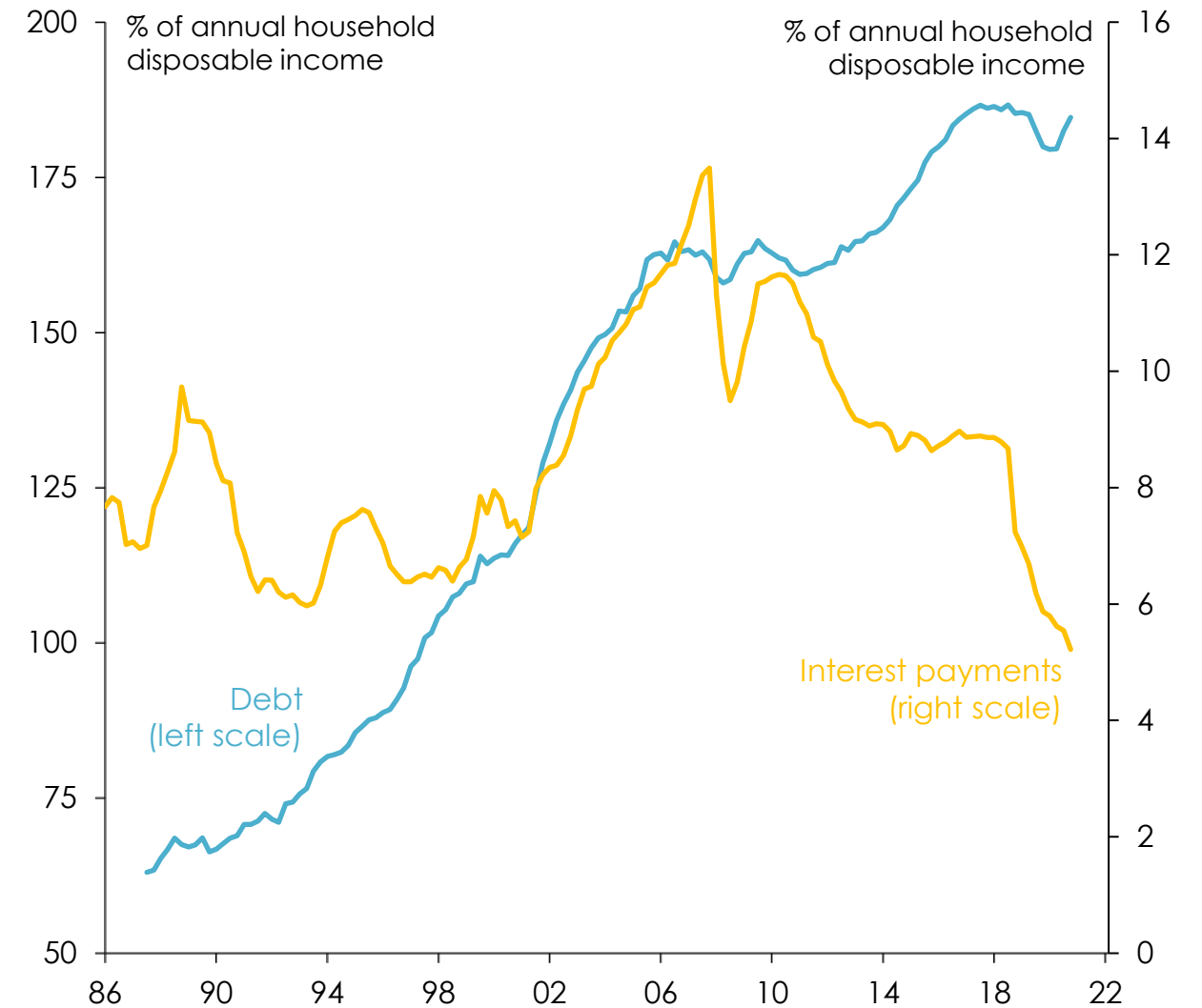
Household net worth has risen by \$2.7trn (23³/₄%) since the end of 2019, while debt service payments have fallen as a pc of income

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

Sources of gains in household net worth, Q4 2019 to Q3 2021



Household net debt and interest payments as a percentage of disposable income

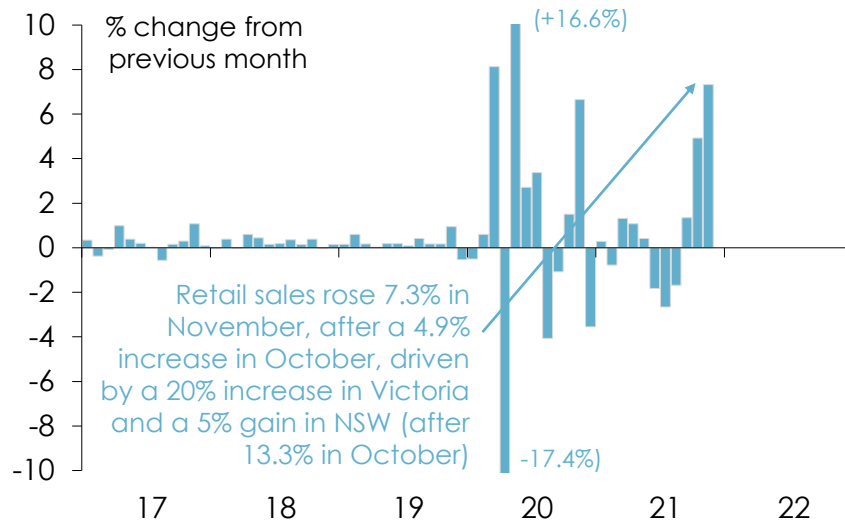


Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. September quarter data will be released on 31st March 2022. [Return to "What's New"](#).

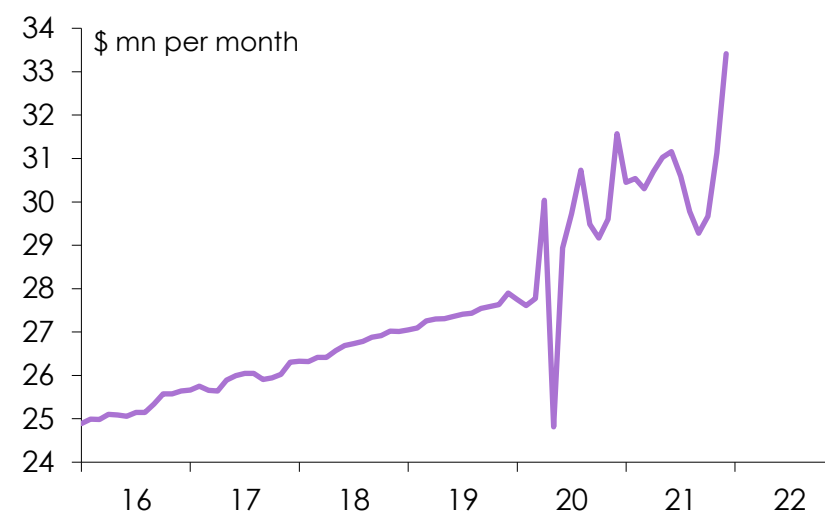
Retail sales surged 7.3% in November as Victoria came out of lockdown with a 20% rise in sales, together with a 5% gain in New South Wales

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

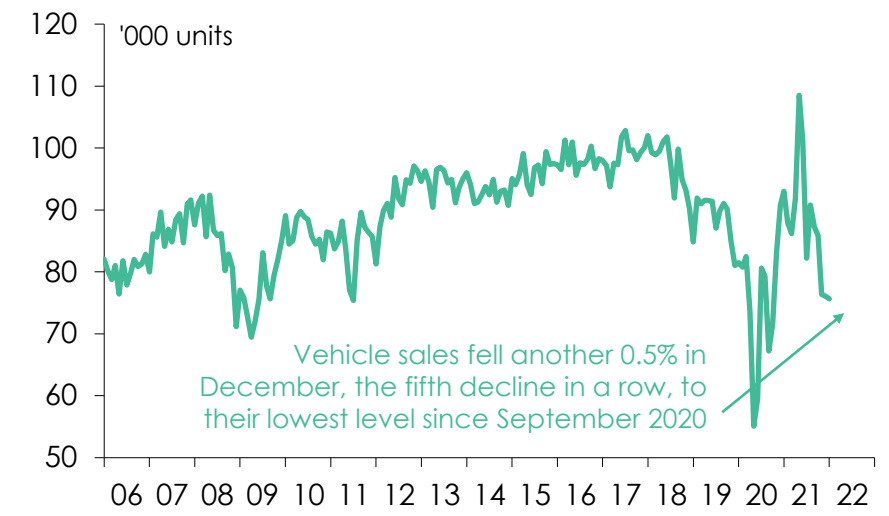
Monthly retail sales



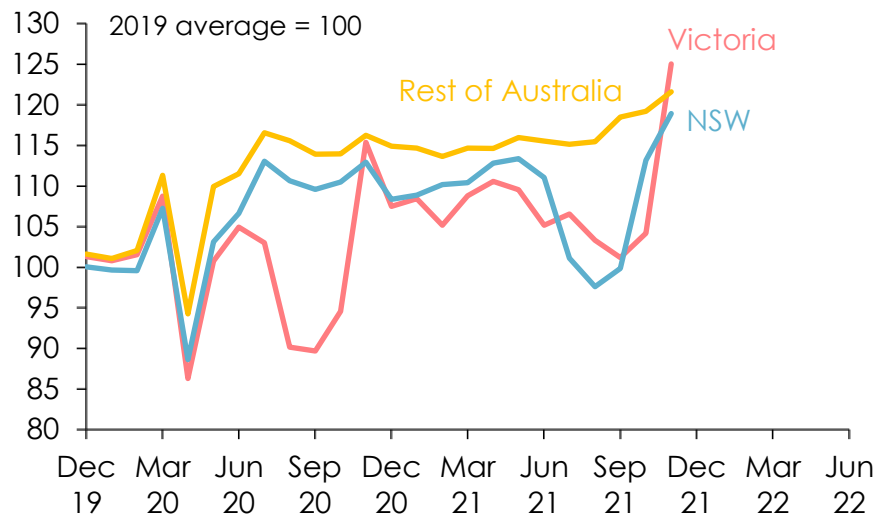
Level of retail sales



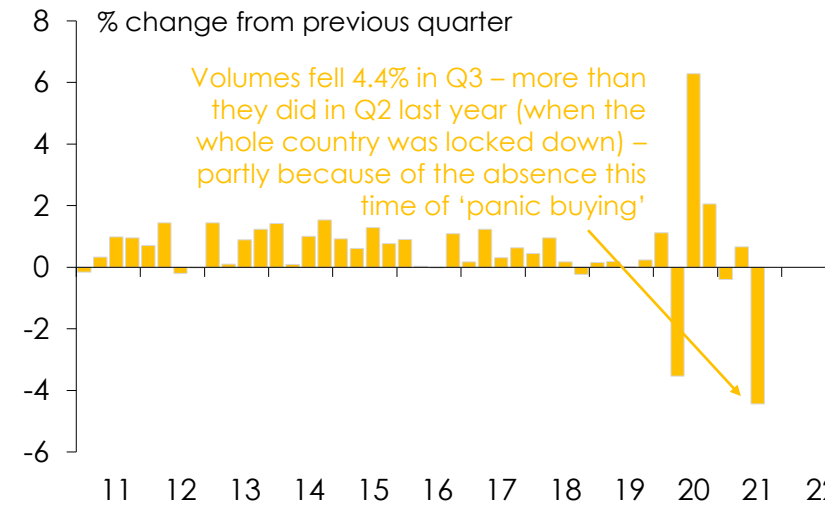
New motor vehicle sales



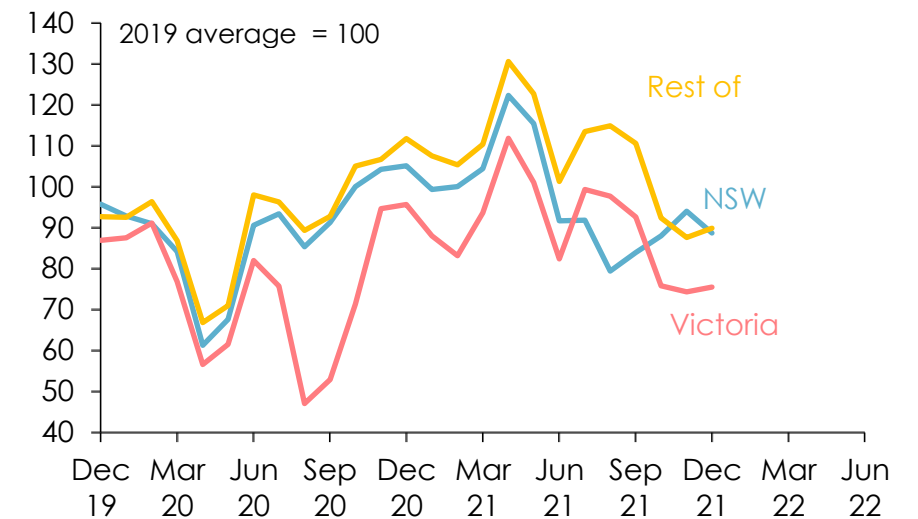
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest

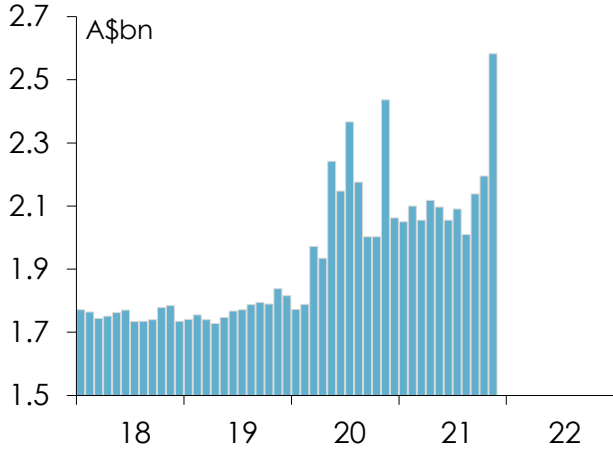


Note: see also [slide 32](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Preliminary December retail sales data will be released on 1st February; January motor vehicle sales data will be released in the second week of February. [Return to "What's New"](#).

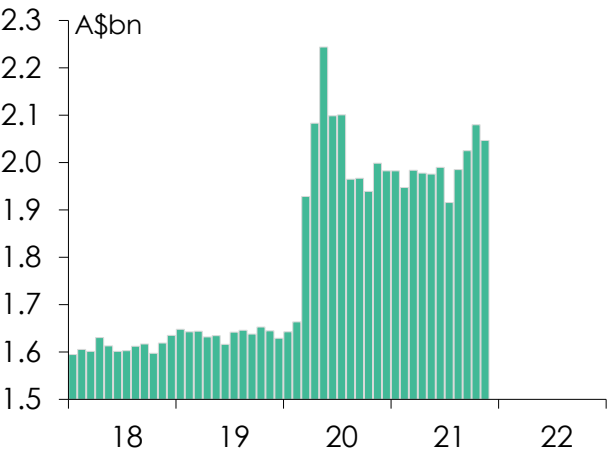
Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

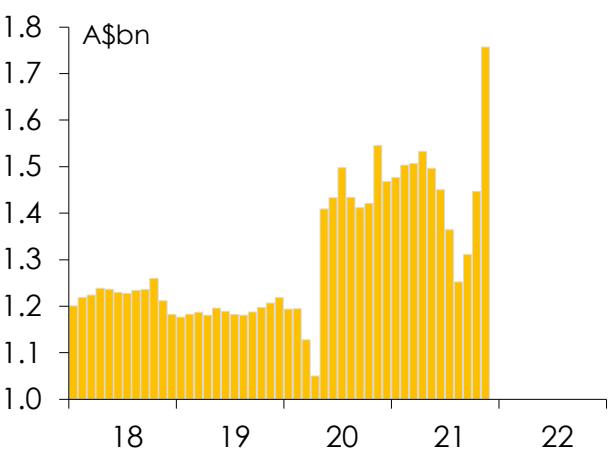
Electronic & electrical goods



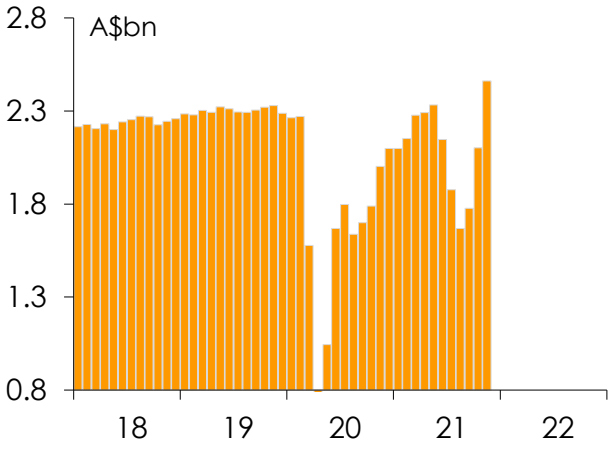
Hardware, building & garden supplies



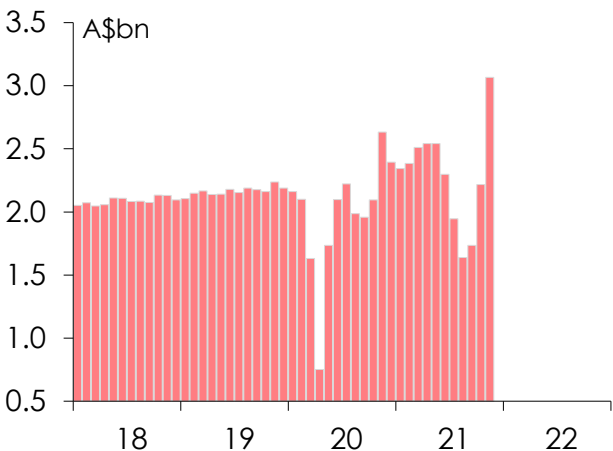
Floor coverings, furniture, housewares etc



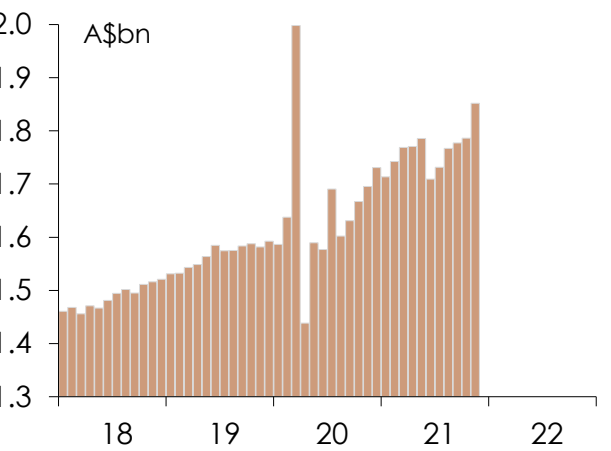
Cafes and restaurants



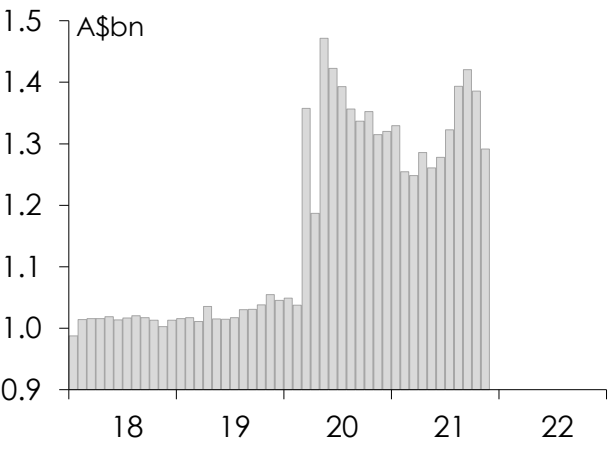
Clothing, footwear & personal accessories



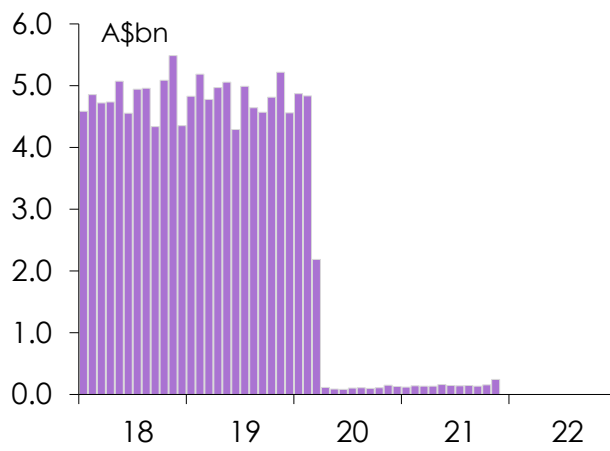
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Overseas travel

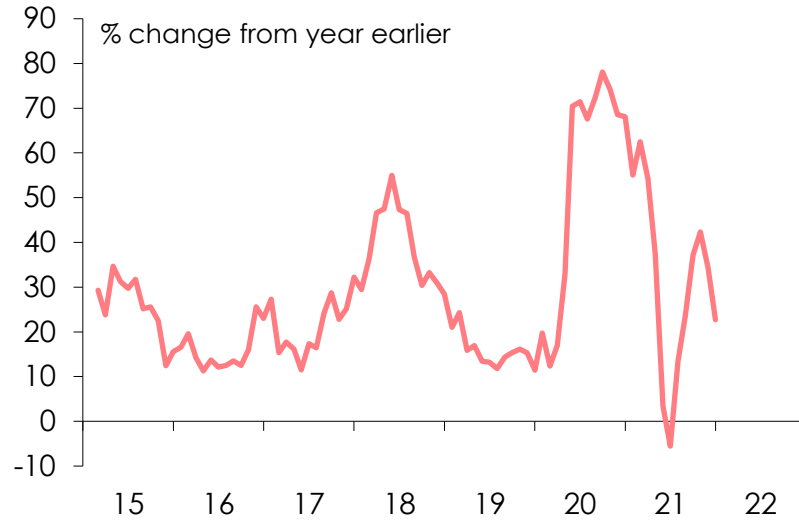


Sources: ABS, [Retail Trade, Australia](#), November 2021 (December data will be released on 7th February); and [International Trade in Goods and Services, Australia](#), November 2021. [Return to "What's New"](#).

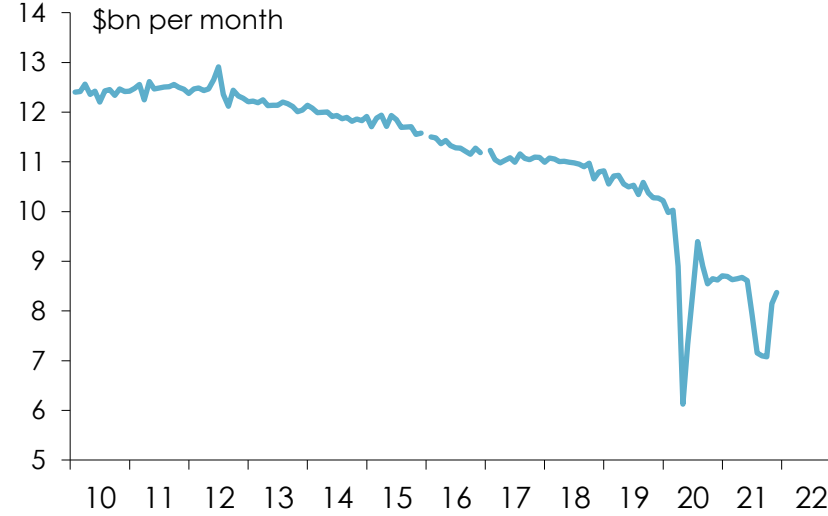
The most recent lockdowns have prompted a renewed surge in online spending and accelerated trends away from the use of cash

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

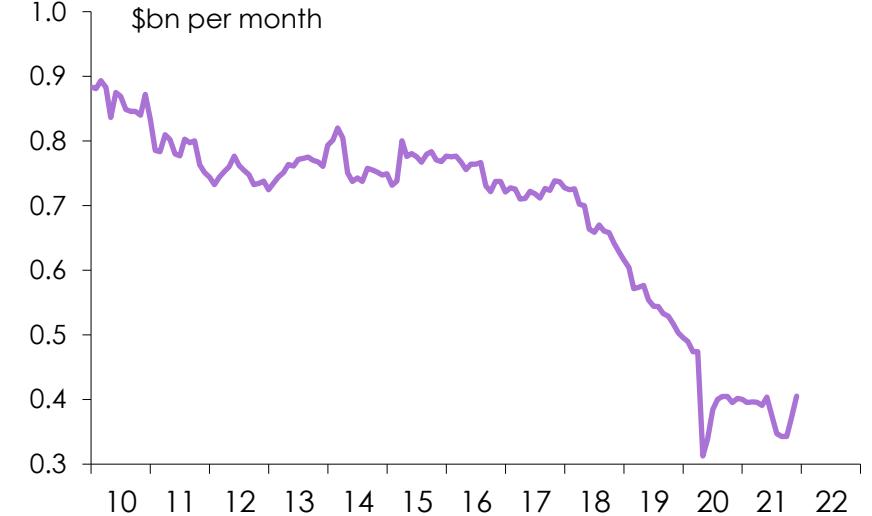
Growth in online retail sales



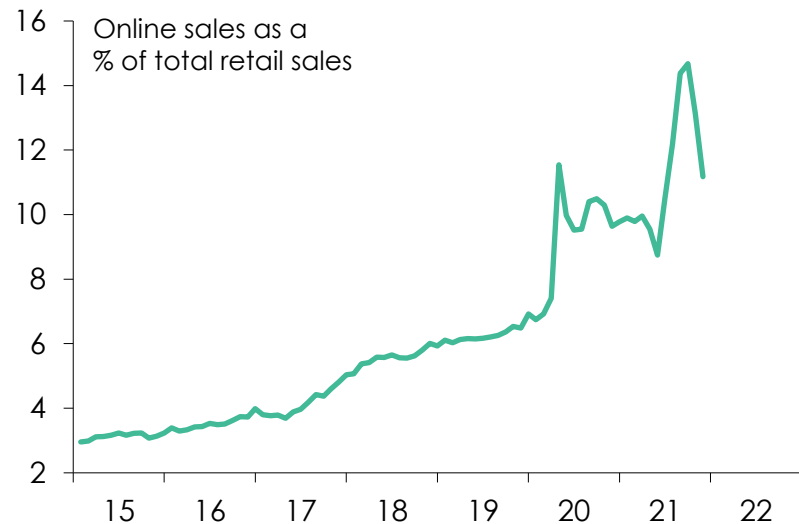
ATM cash withdrawals



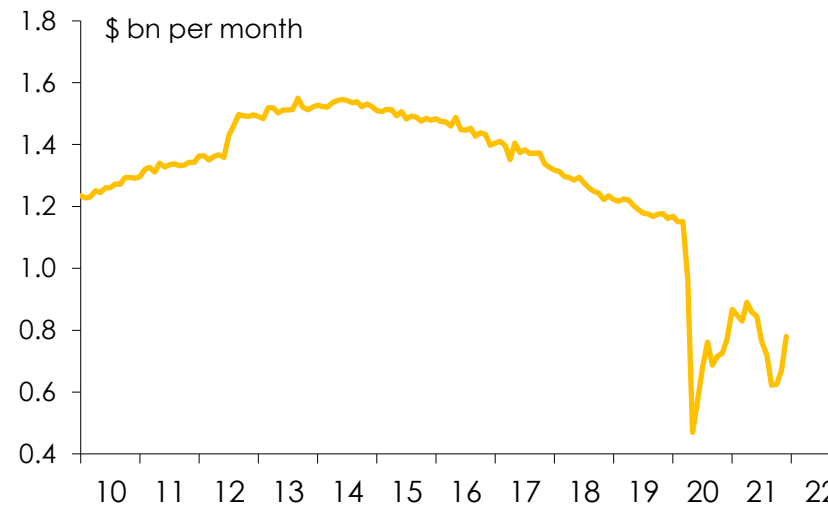
Credit card cash advances



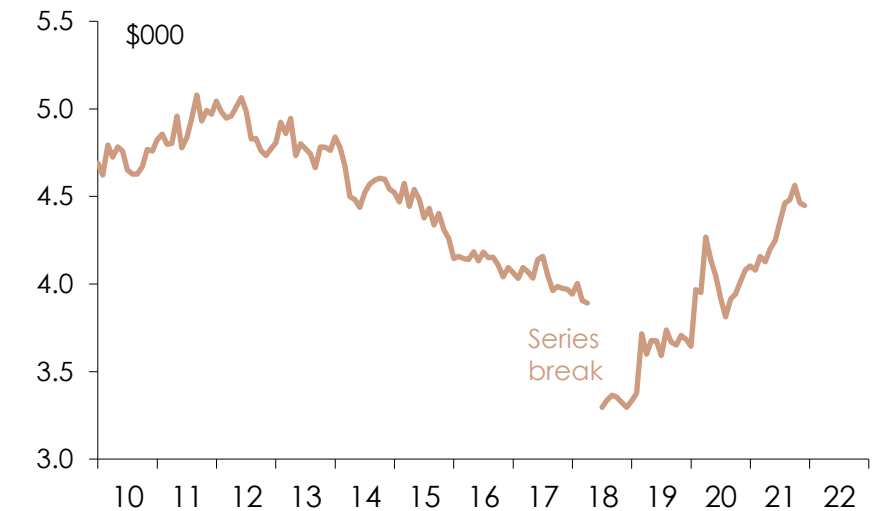
Online retail 'market share'



Debit card cash-outs



Direct entry payments avge value



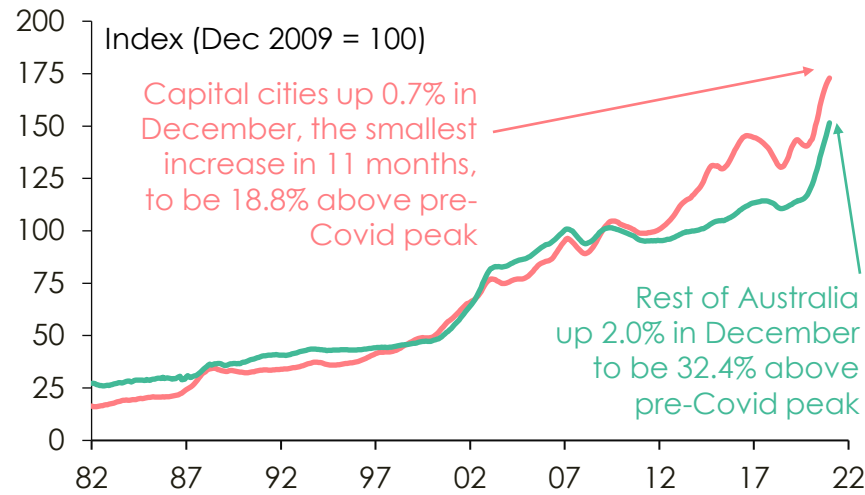
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for November. December online retail sales data and payments system data will both be published on 7th February. [Return to "What's New"](#).

Housing and the residential property market

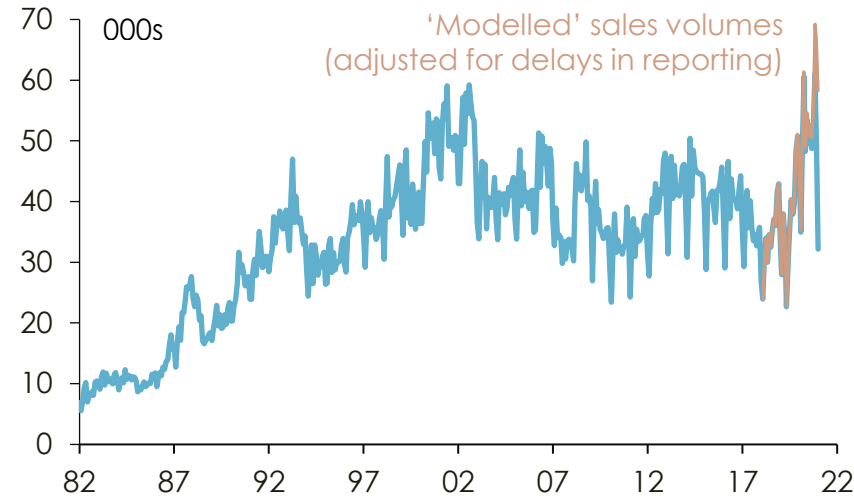
Property prices rose 'only' 1.0% in December, the smallest increase since last January, and down from 2.2% in each of May and June last year

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

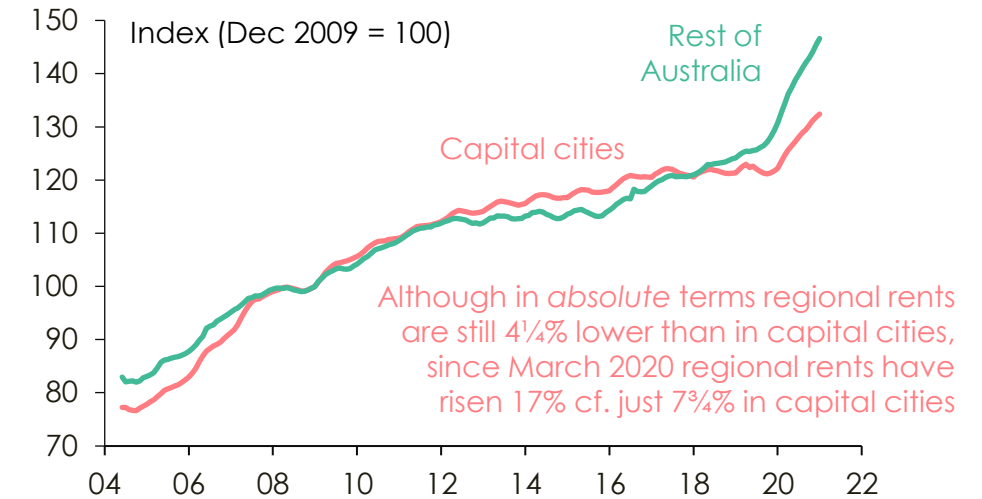
Residential property prices



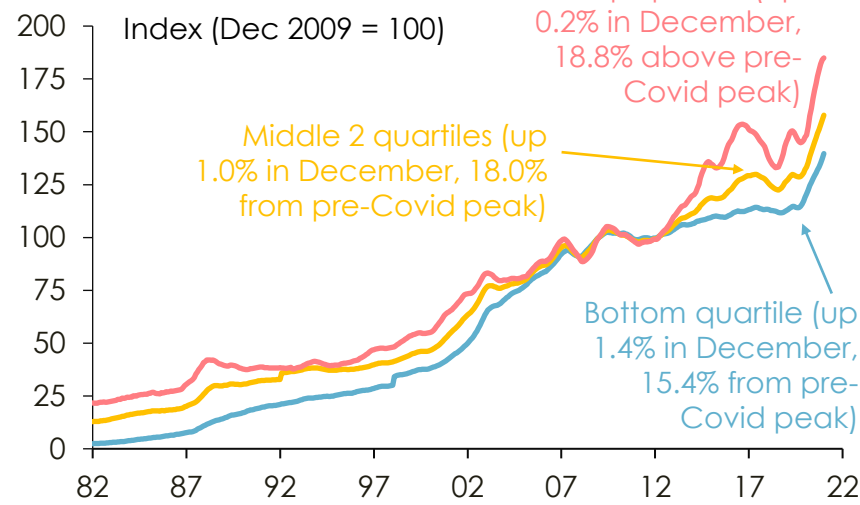
Residential property sales volumes



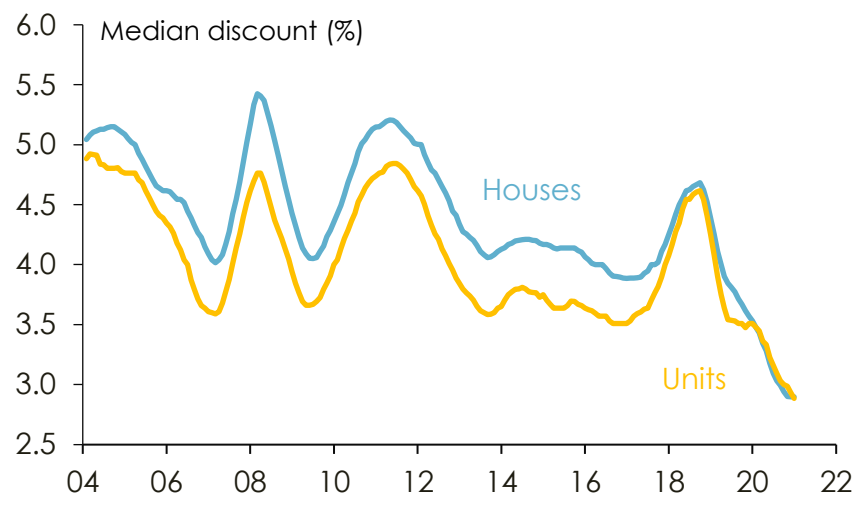
Residential rents



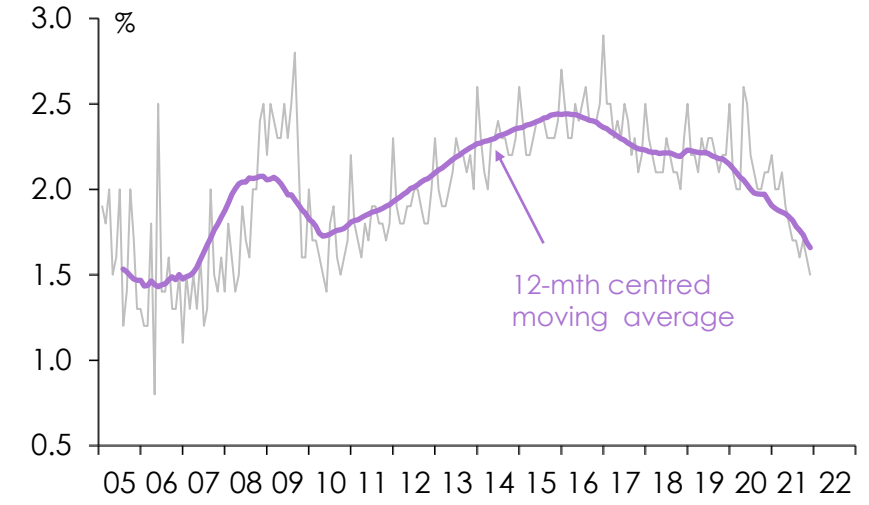
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

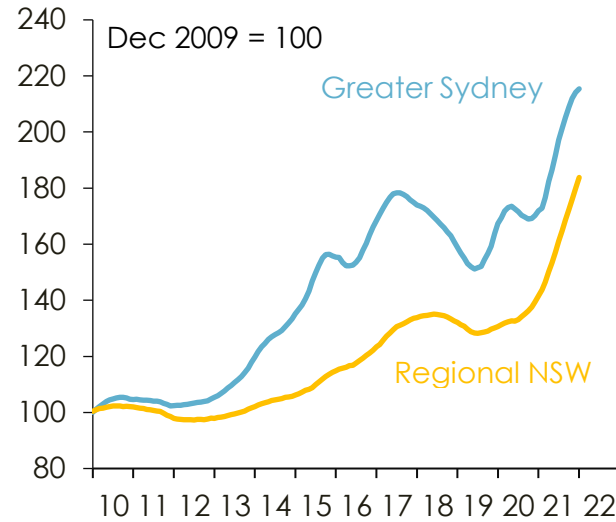


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of residential rents uses a similar methodology to measure the 'organic' change in underlying rents. The 'modelled' sales volume estimates seek to account for delays in receiving information on transactions that have yet to settle (which can be more than six weeks after the contract date). Latest data are for December (except for vacancy rates which is November). January prices, sales volumes and rents data will be released on 1st February. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

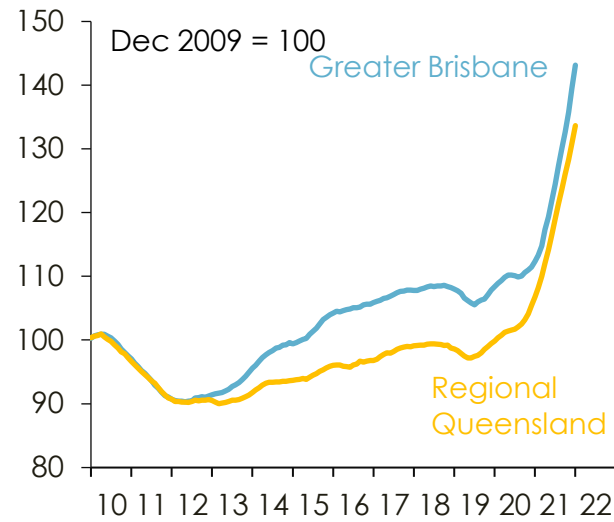
Prices in Adelaide, Canberra and Hobart, and regional NSW, Victoria, Qld and Tasmania are all 25-35% above their pre-pandemic peaks

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

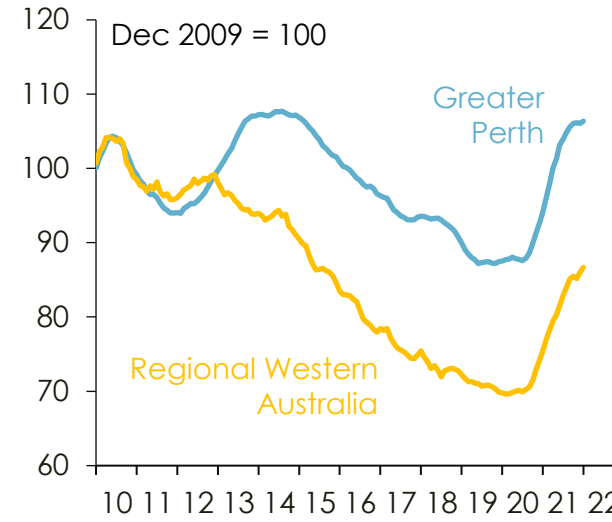
New South Wales



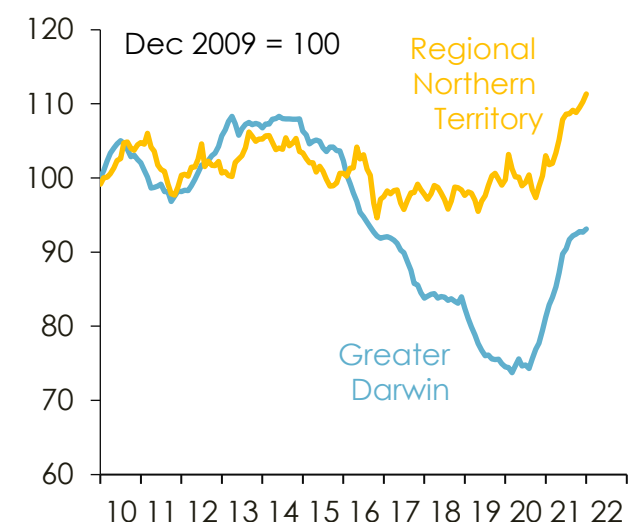
Queensland



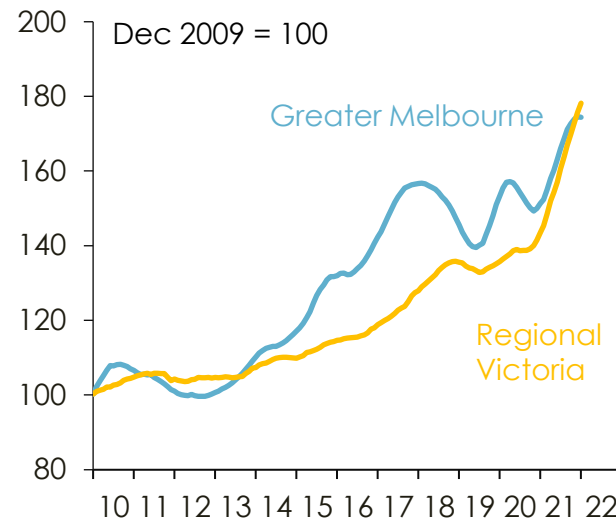
Western Australia



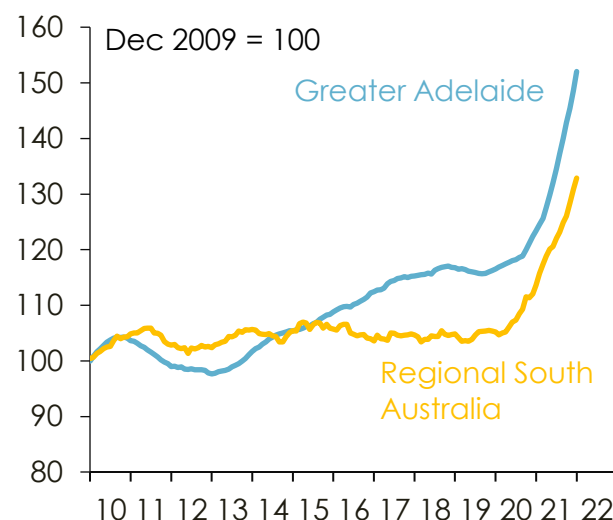
Northern Territory



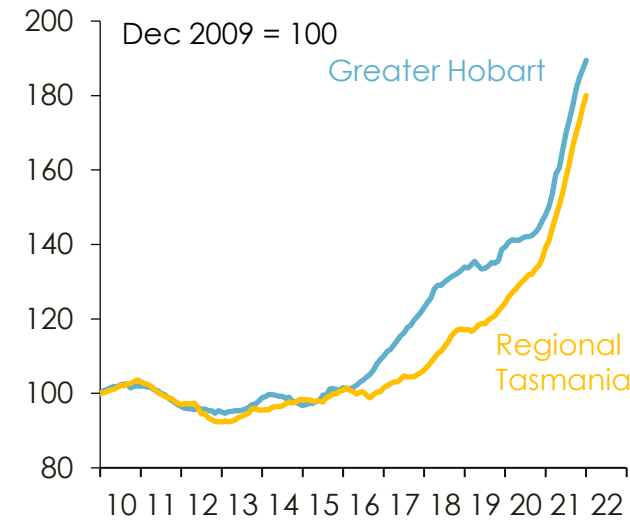
Victoria



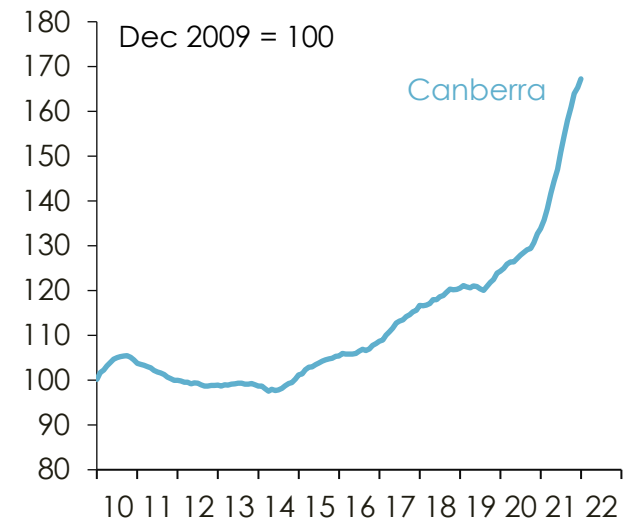
South Australia



Tasmania



Australian Capital Territory

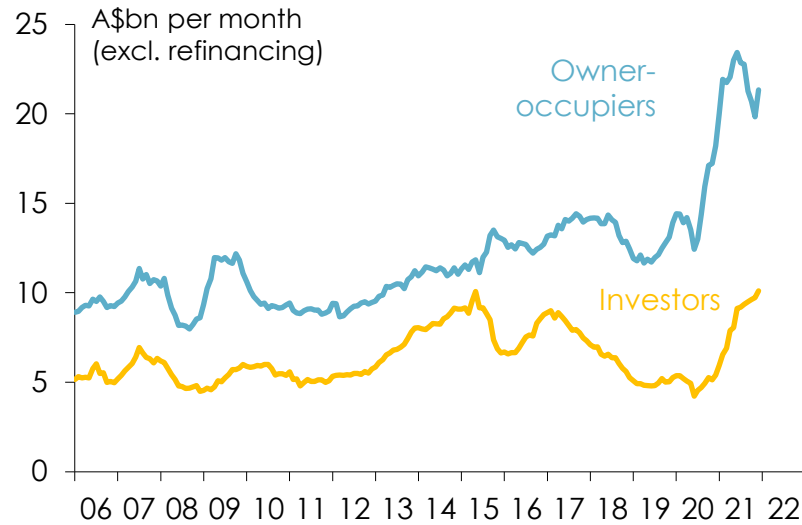


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Notice that different states have different vertical scales. Latest data are December; January data will be released on 1st February. Source: [CoreLogic](#). [Return to "What's New"](#).

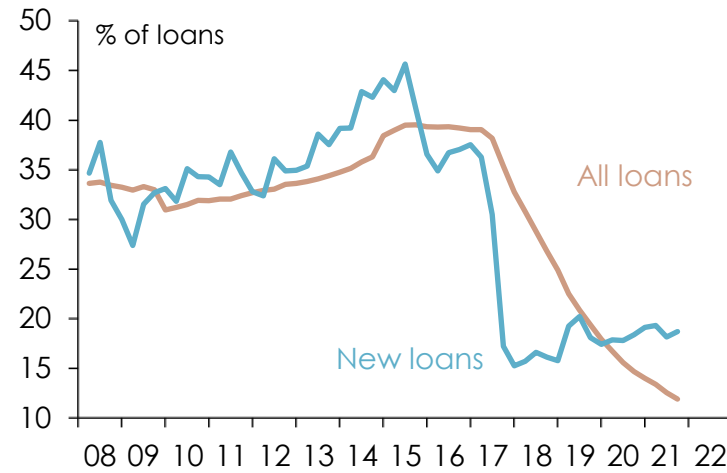
Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

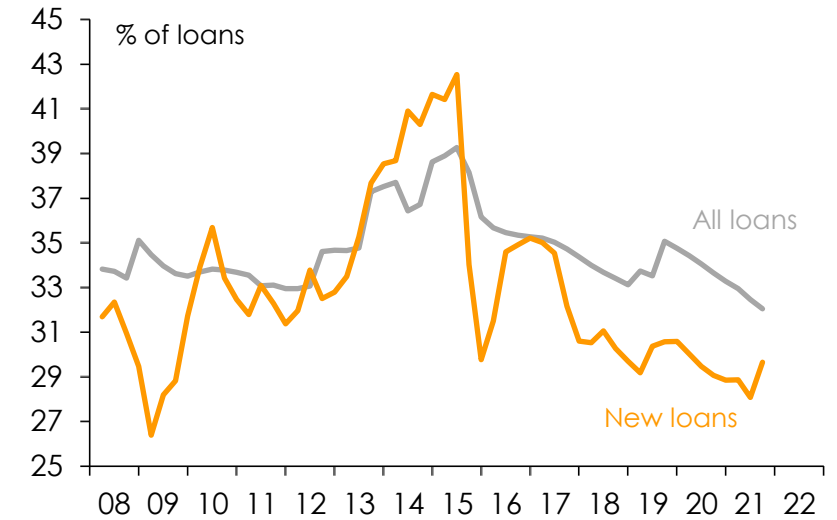
Housing finance commitments



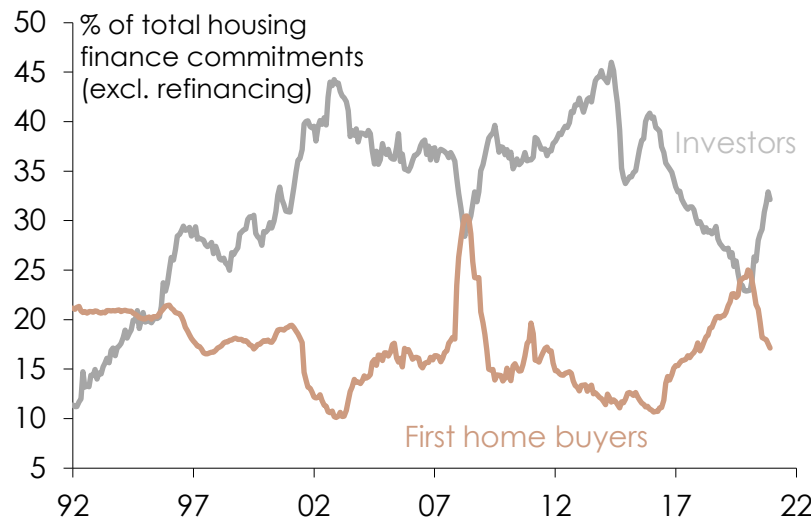
Interest-only loans



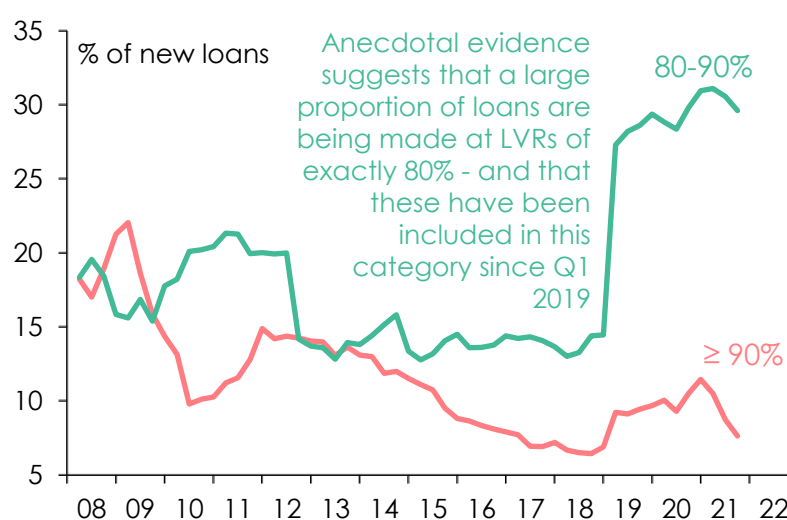
Loans to investors as a pc of total



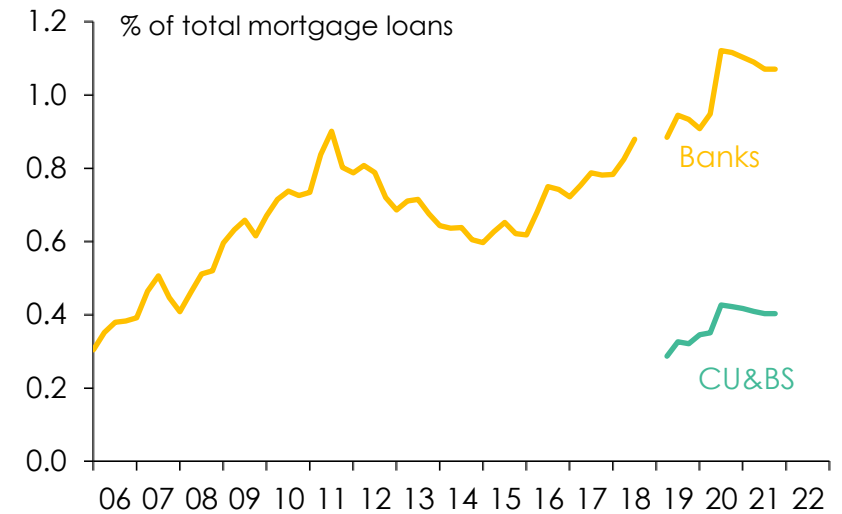
Shares of housing finance



High LVR loans as a pc of total



Non-performing mortgage loans

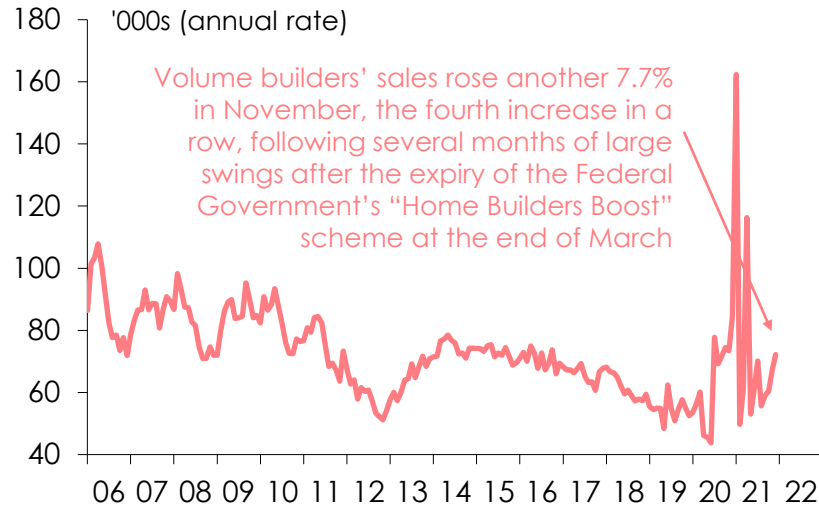


Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). November housing finance data will be released on 14th January 2022; December; APRA data on ADI property exposures for the December quarter will be released on 15th March. [Return to "What's New"](#).

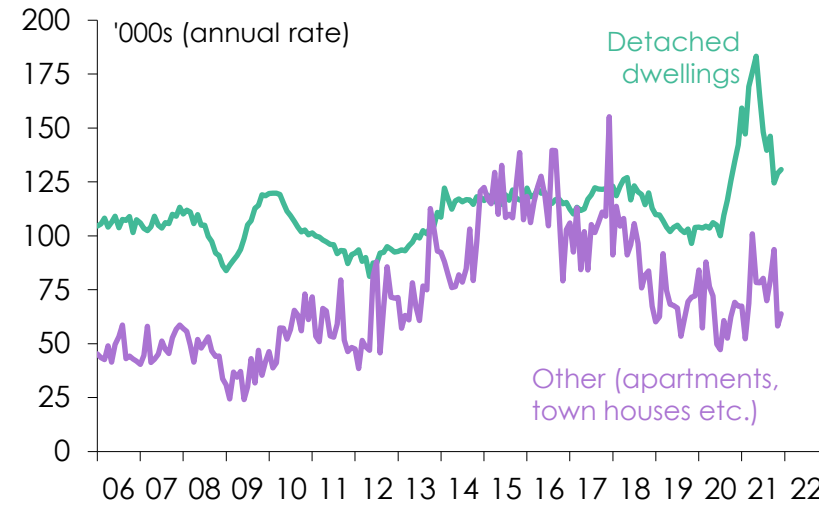
Residential building approvals rose marginally in November, but remain about 8% below the average for the five years before the onset of covid

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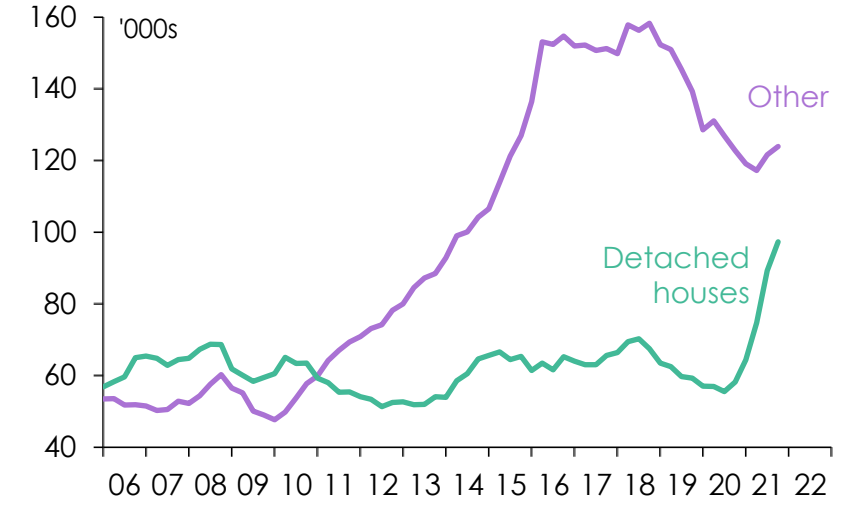
Large builders' new home sales



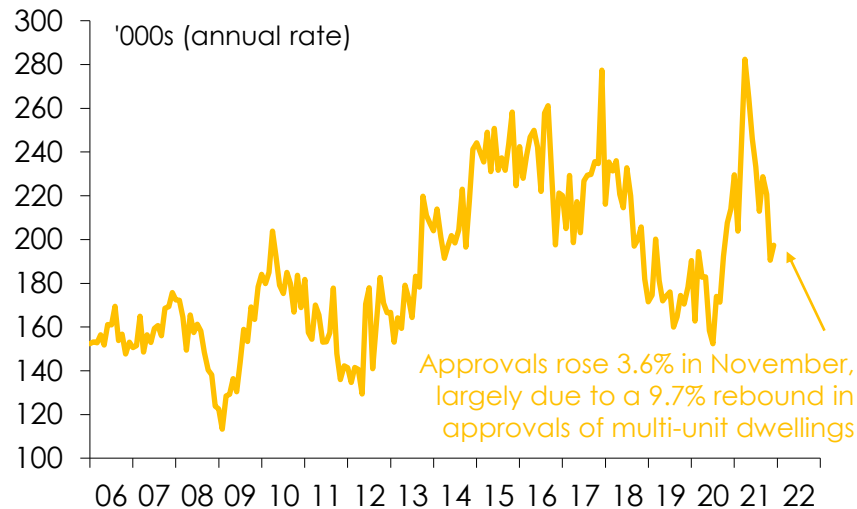
Building approvals, by type



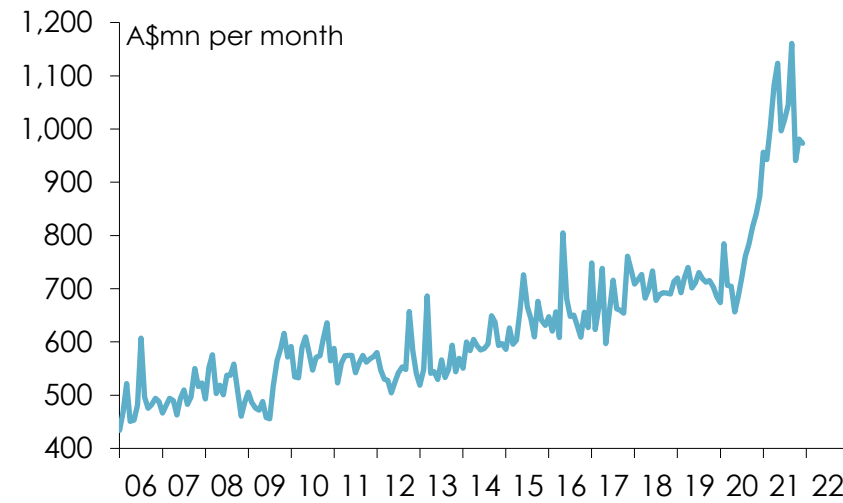
Dwellings under construction



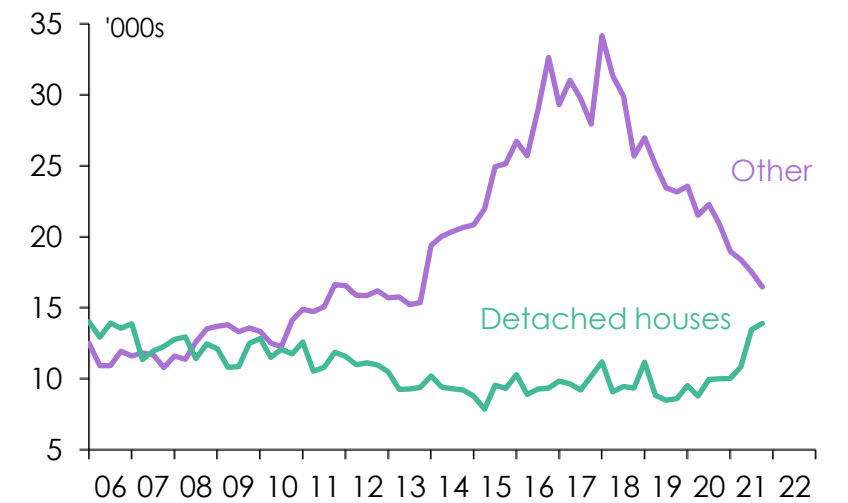
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started



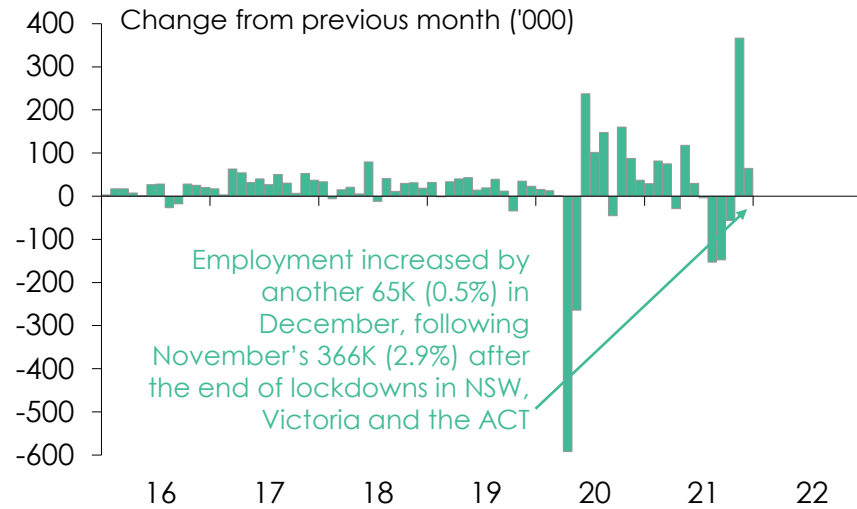
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#); Housing Industry Association. December building approvals data will be released on 3rd February; December quarter dwellings under construction and 'pipeline' data on 13th April. [Return to "What's New"](#).

The labour market

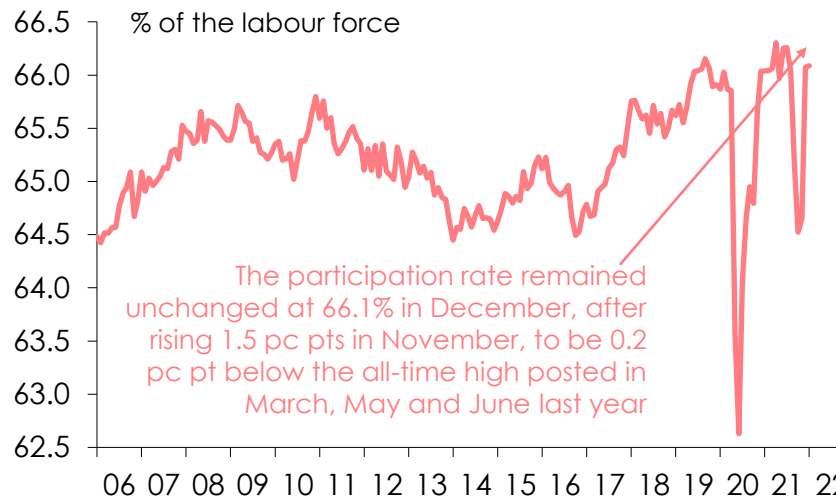
Employment rose another 0.5% in December, after a 2.9% surge in November, and the unemployment rate fell to its lowest since August 2008

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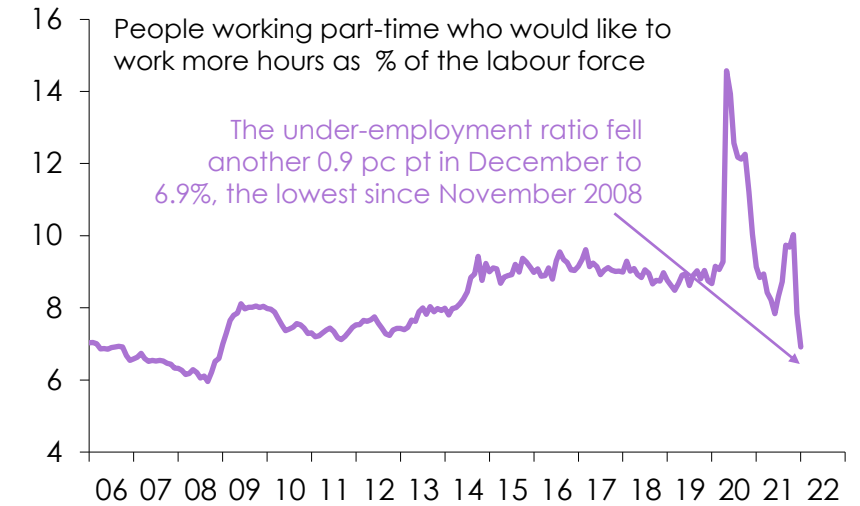
Employment



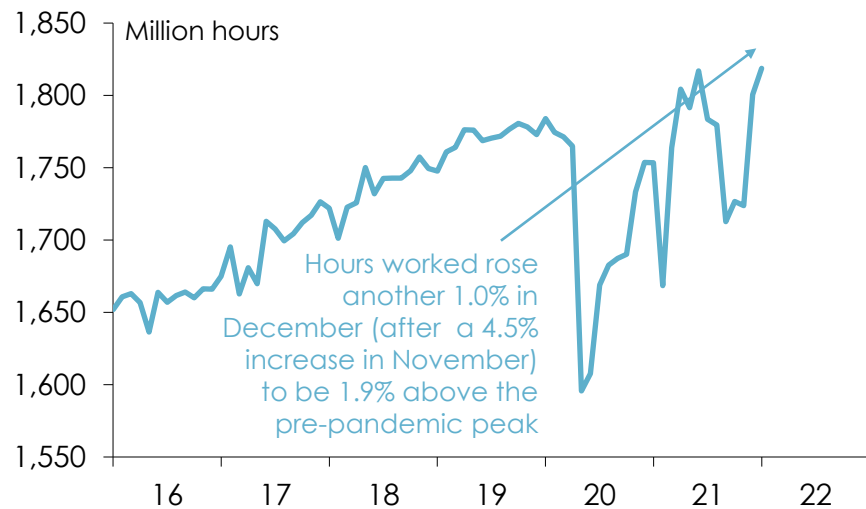
Labour force participation rate



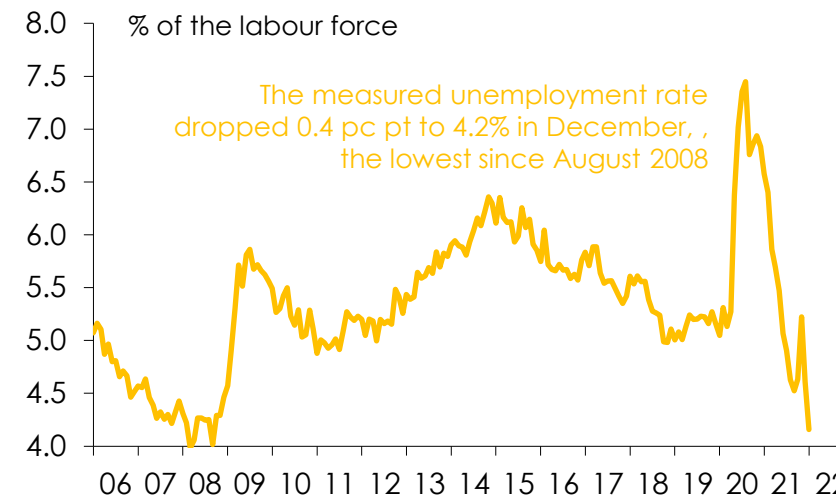
Under-employment ratio



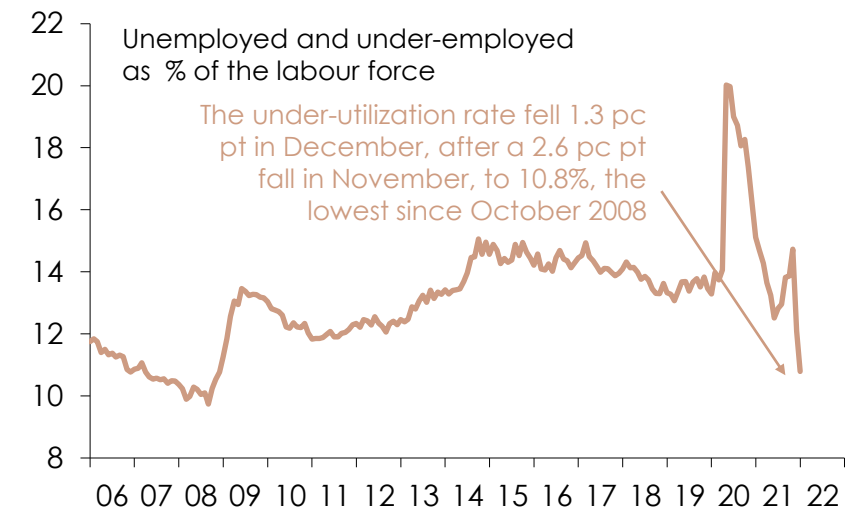
Total hours worked



Unemployment rate



'Under-utilization' rate

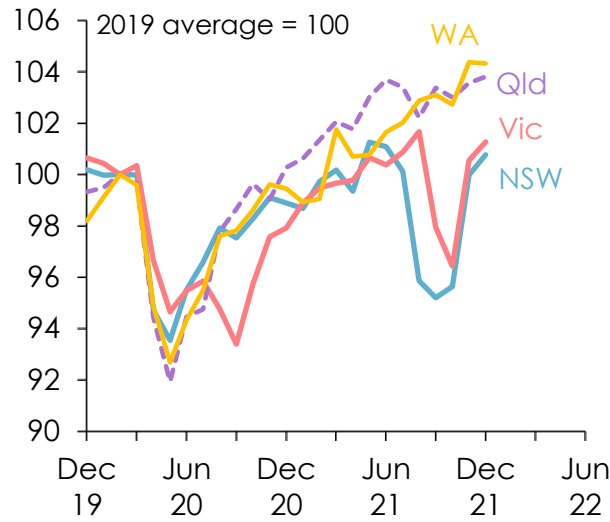


Source: ABS, [Labour Force, Australia](#), December 2021. January data will be released on 17th February. [Return to "What's New"](#).

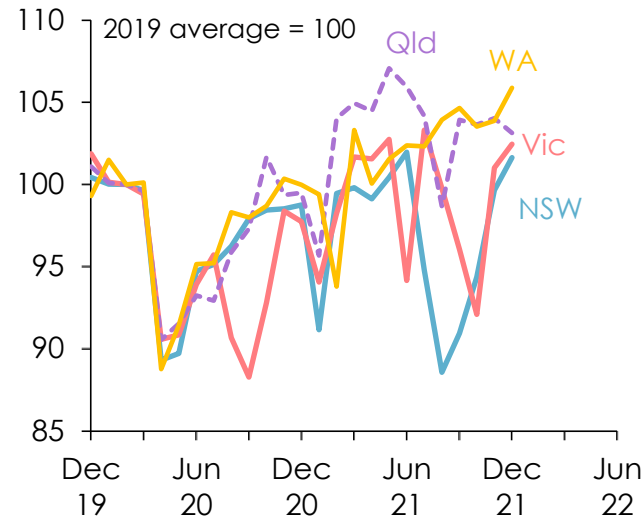
New South Wales and Victoria again accounted for most of the jobs gains in December – but employment hasn't fully recovered in the ACT

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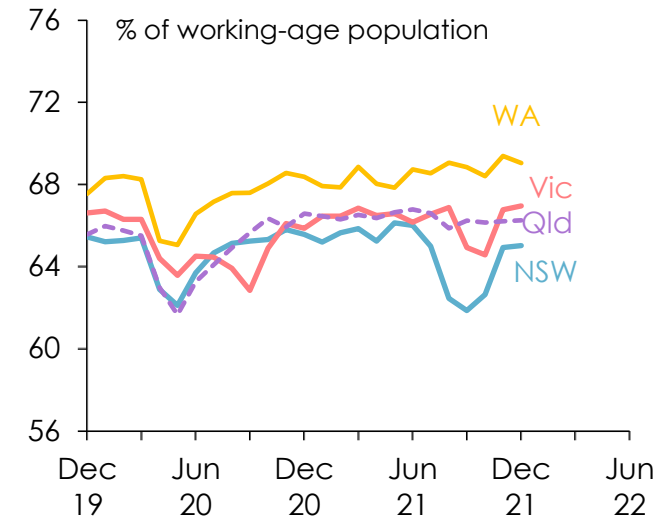
Employment



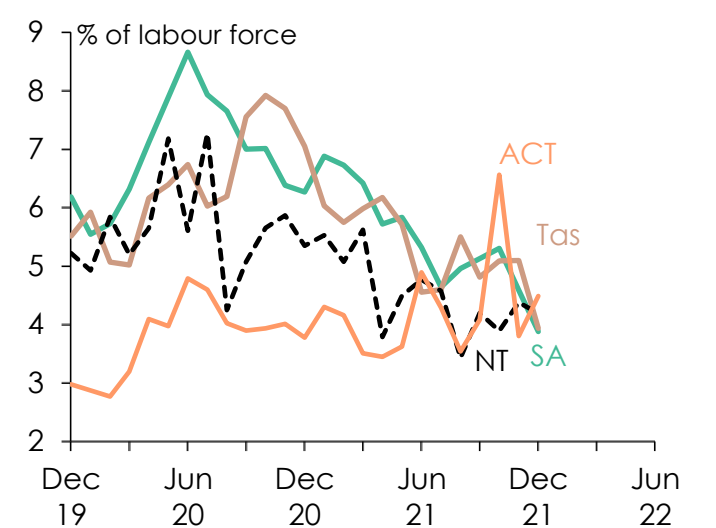
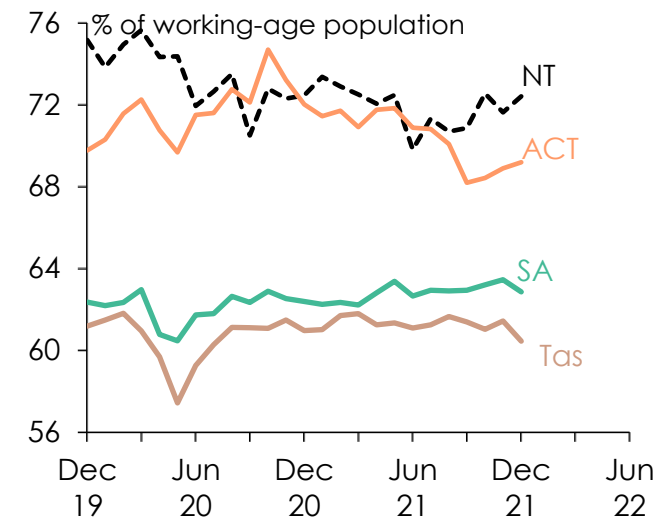
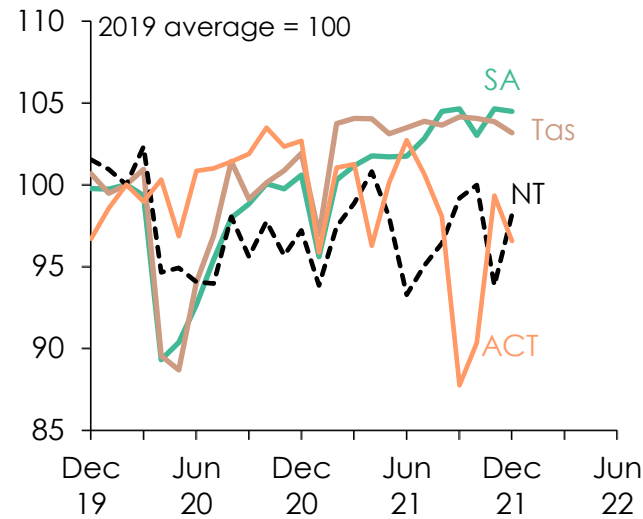
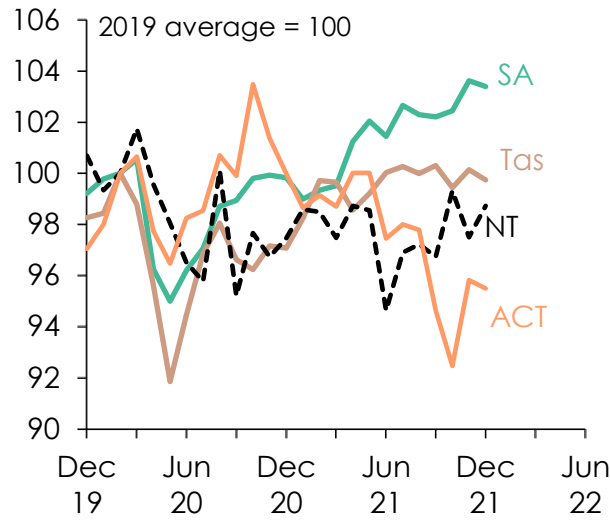
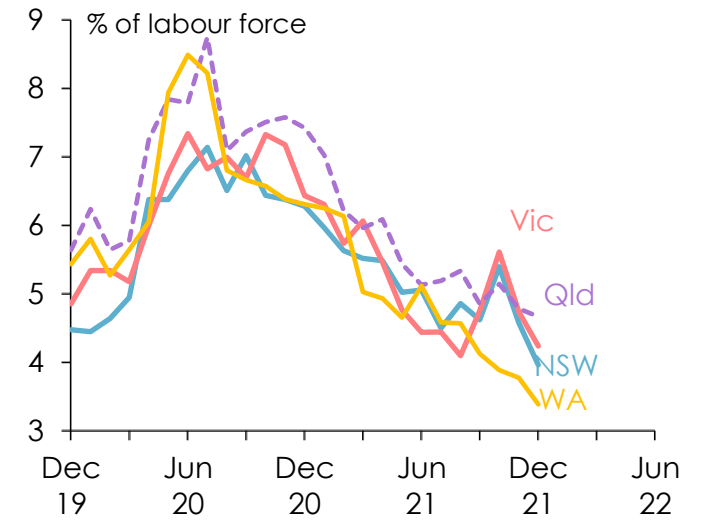
Hours worked



Participation rates



Unemployment rates

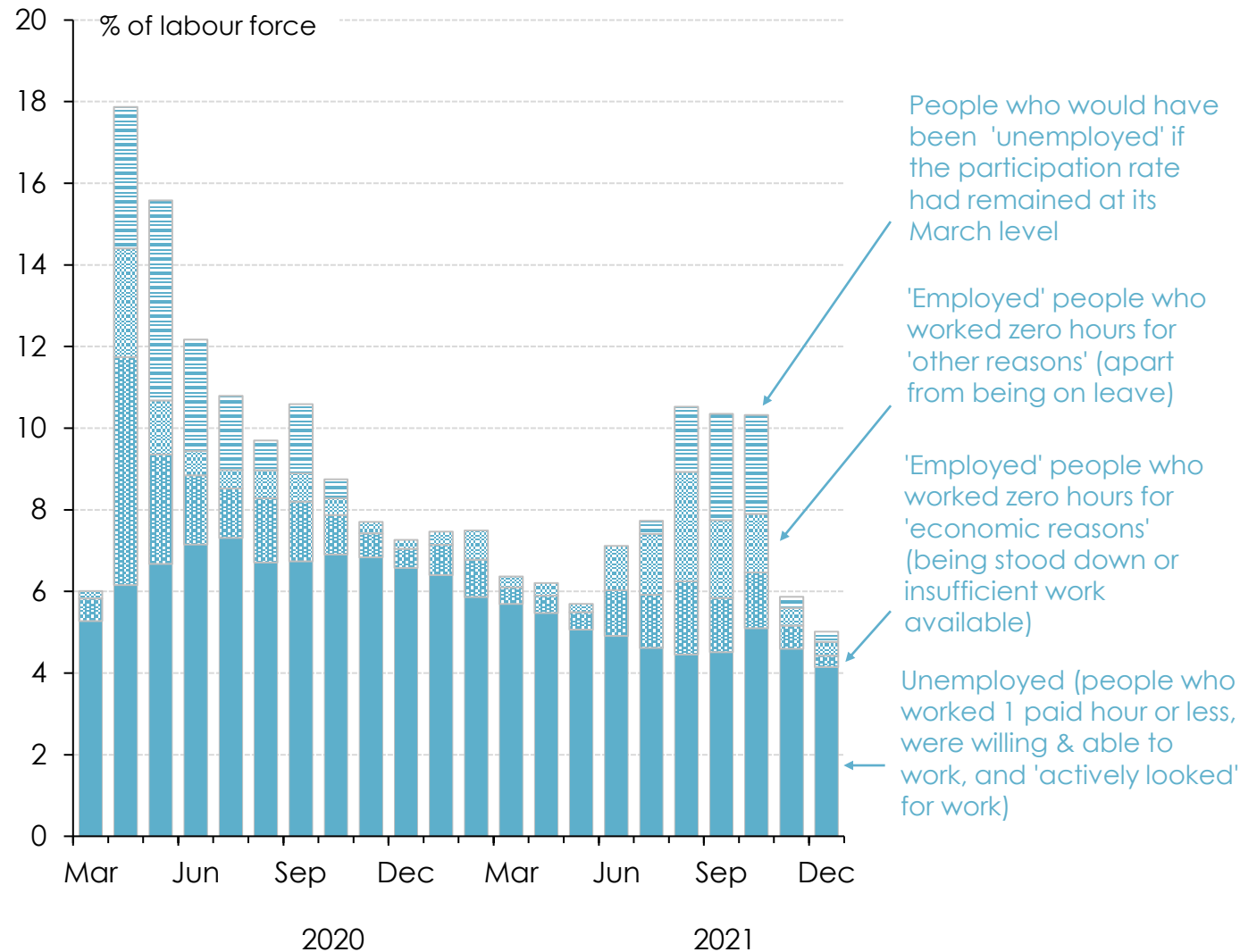


Source: ABS, [Labour Force, Australia](#), December 2021. January data will be released on 17th February. [Return to "What's New"](#).

The 'effective' unemployment rate dropped back to 5.0% in December, from over 10% in August, September and October last year

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

Alternative measures of unemployment



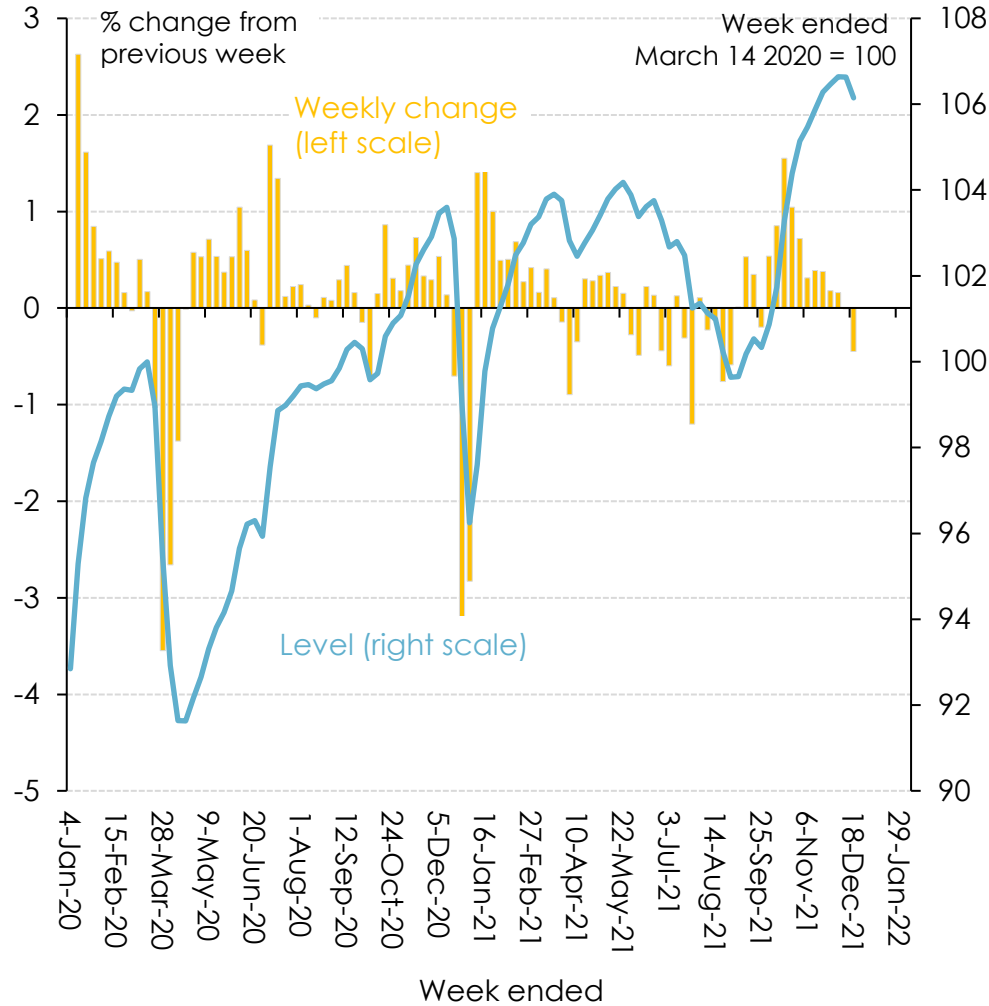
- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') peaked at 249K last August, but by December had fallen to less than 39K, the lowest number since the ABS began measuring this category in July 2014
- ❑ The number of people counted as 'employed' but who worked zero hours for 'other reasons' (apart from being leave), which peaked at 371K in August, fell to 46K in December, the lowest number since May
- ❑ Almost 362K people had apparently 'dropped out' of the work force in September – and this number remained at 336K in October – but by December fewer than 35K of them were still out of the workforce
- ❑ The 'effective' unemployment rate – which adds back people in the above three groups to the 'official' rate – which had risen from 5.7% in May to 10.5% in August, and remained above 10% in September and October – fell back to 5.9% in November, and dropped again to 5.0% in December

Source: ABS, [Labour Force, Australia](#), December 2021. January data will be released on 17th February. [Return to "What's New"](#).

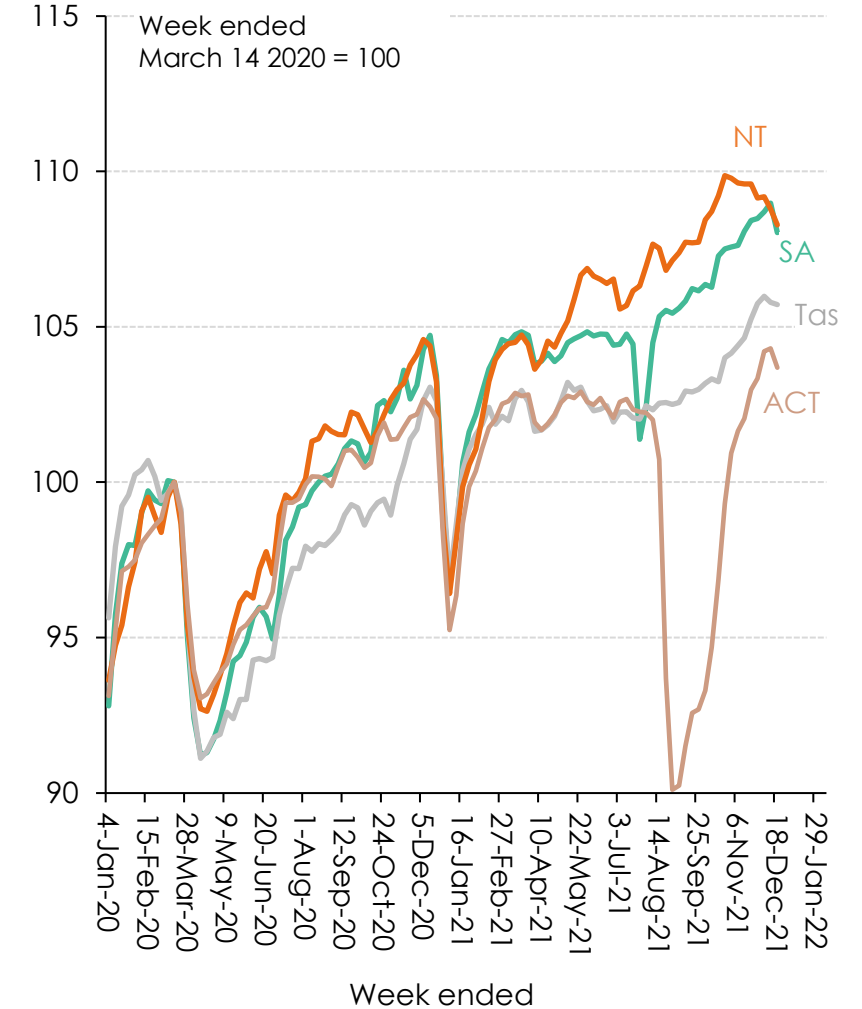
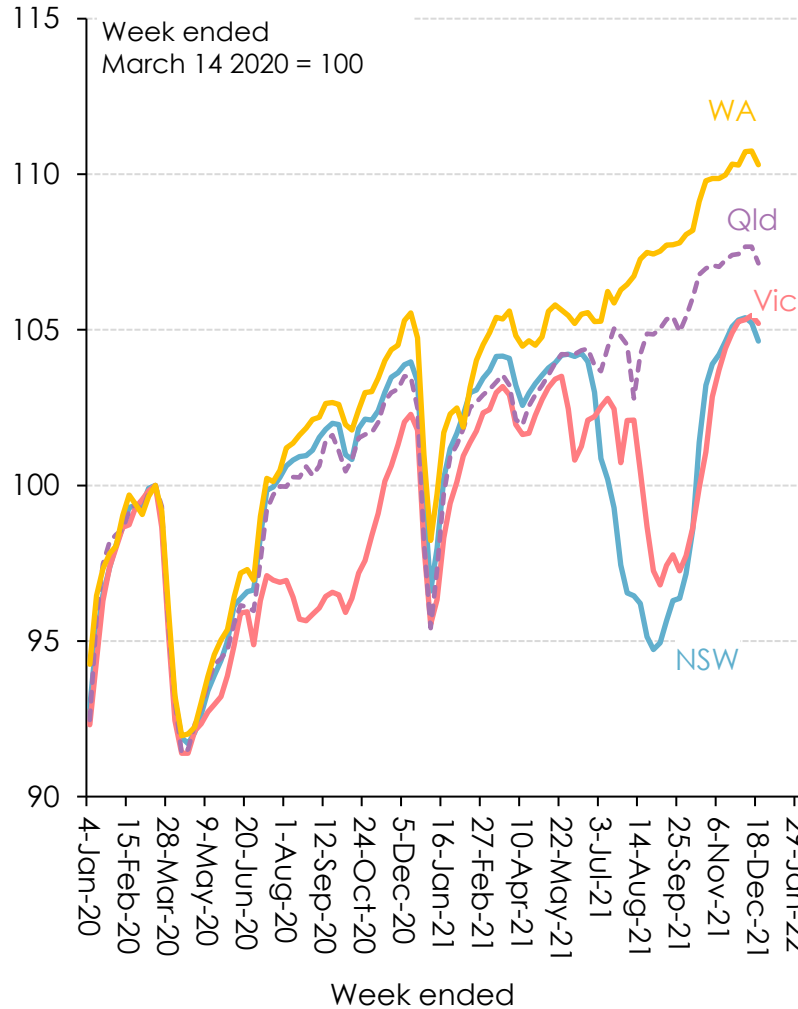
Payroll jobs fell by 0.3% over the first three weeks of December last year, reflecting a seasonal pattern similar to 2020

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Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



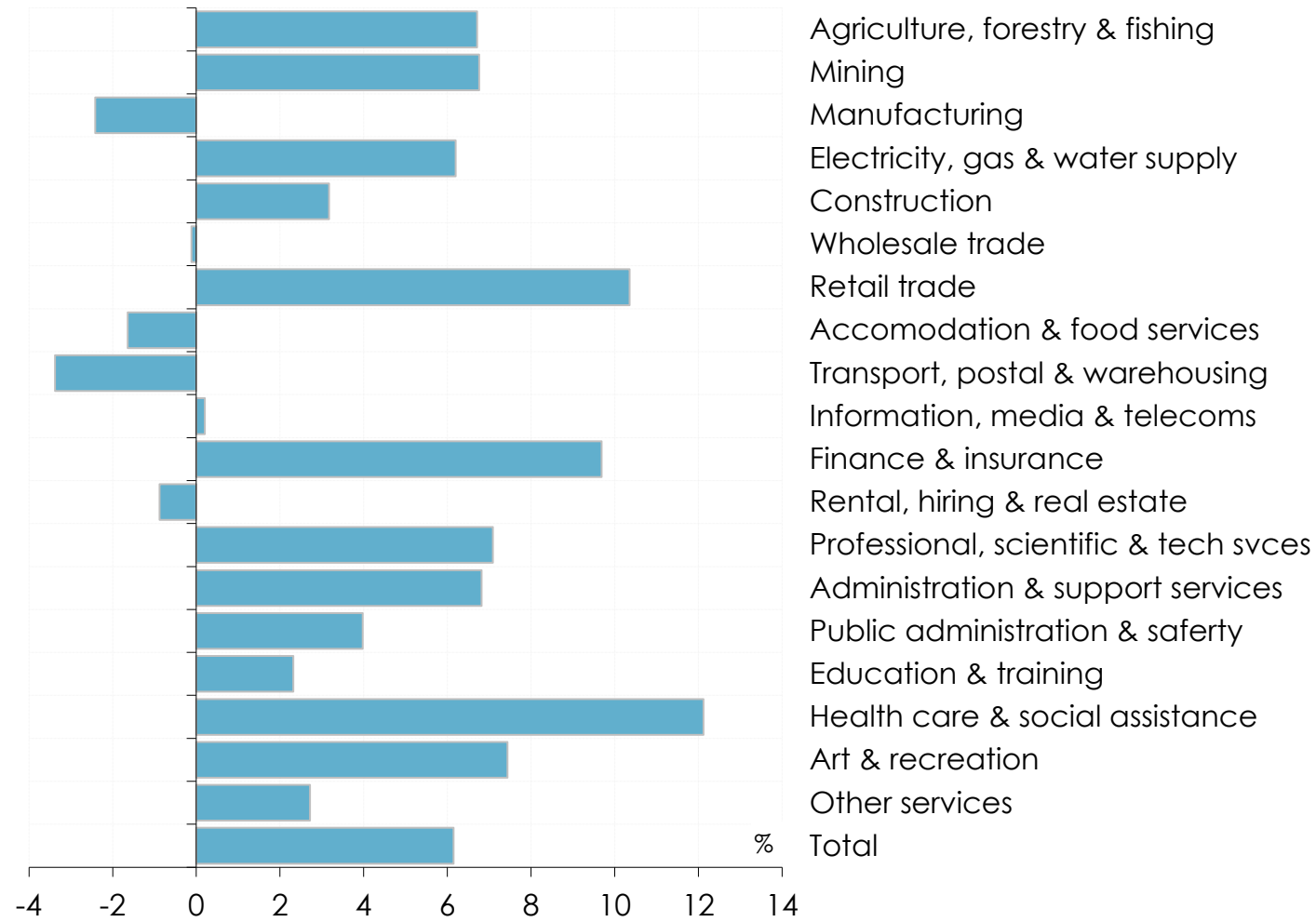
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors); and the two most recent weeks are subject to (what have often been large) revisions. [Return to "What's New"](#).

Payroll employment is still below its pre-pandemic level in five sectors, but is above the pre-pandemic level for both genders and all age groups

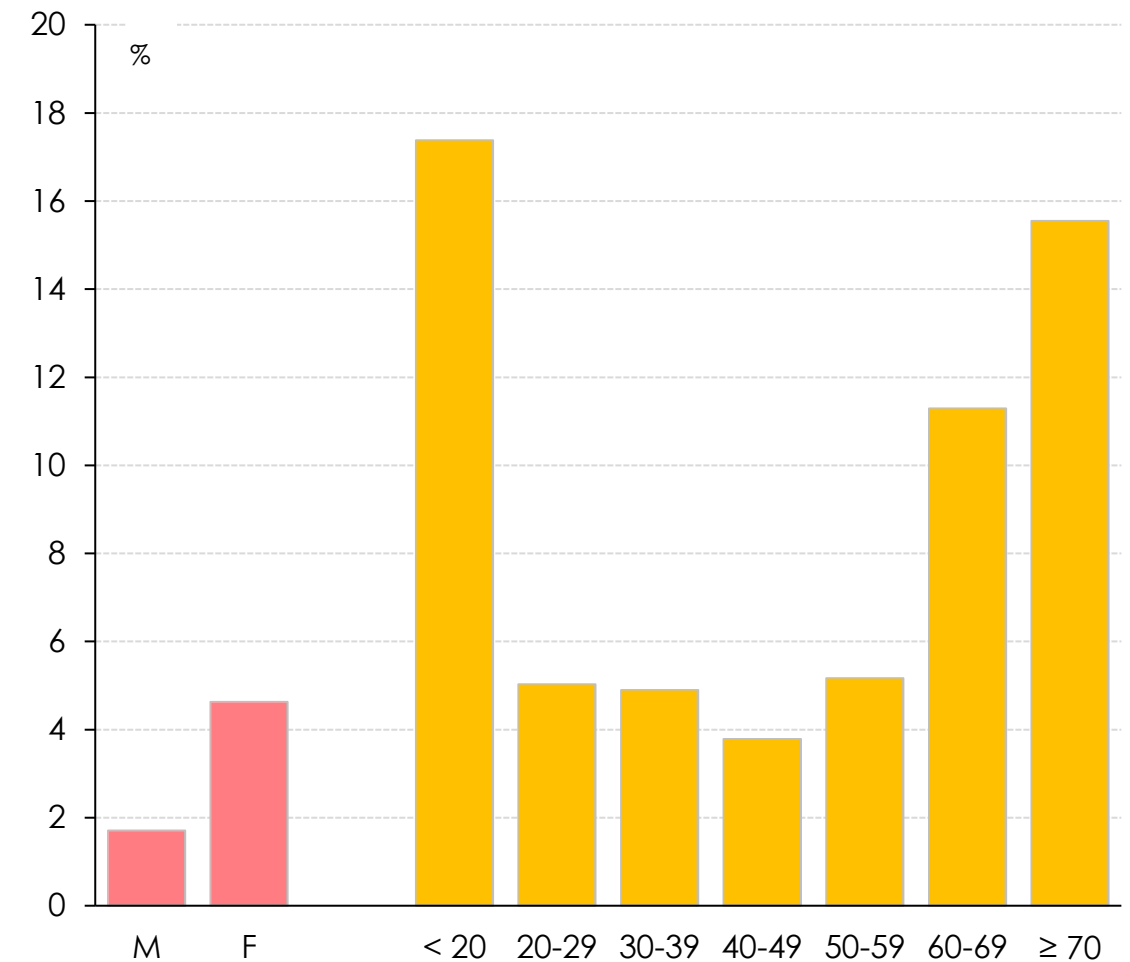
THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

Net change in payroll jobs between week ended 14th March 2020 and week ended 18th December 2021

By industry



By gender and age

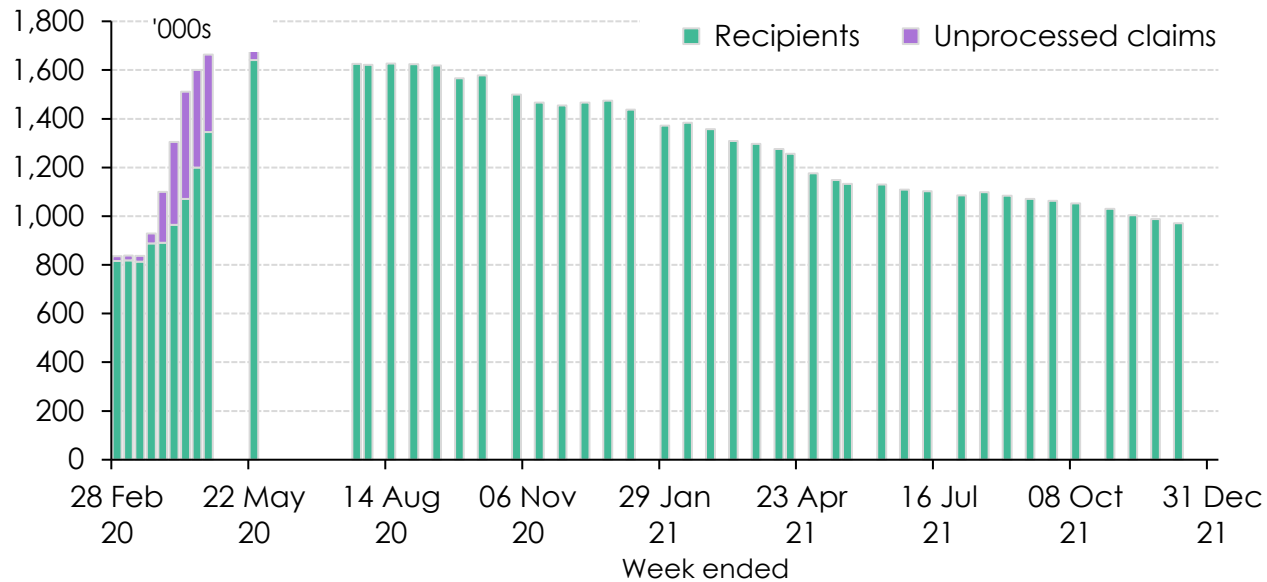


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. [Return to "What's New"](#).

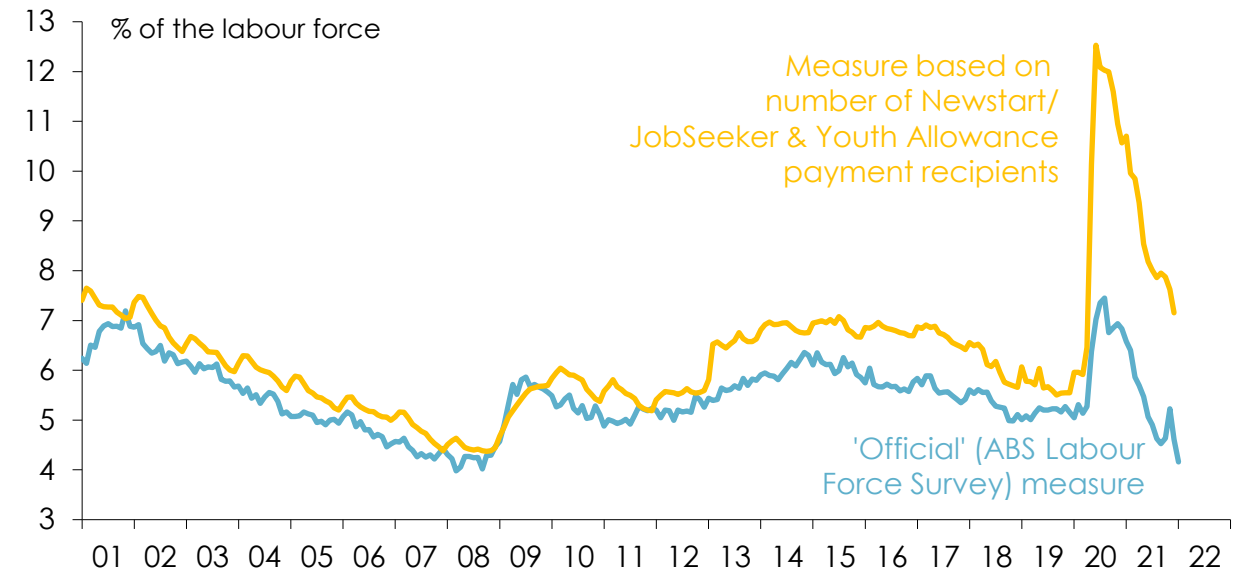
The number of people receiving joblessness-related income support payments has as of late November fallen to its lowest level since last March

THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

Number of people receiving or seeking Newstart/JobSeeker or Youth Allowance payments



Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force

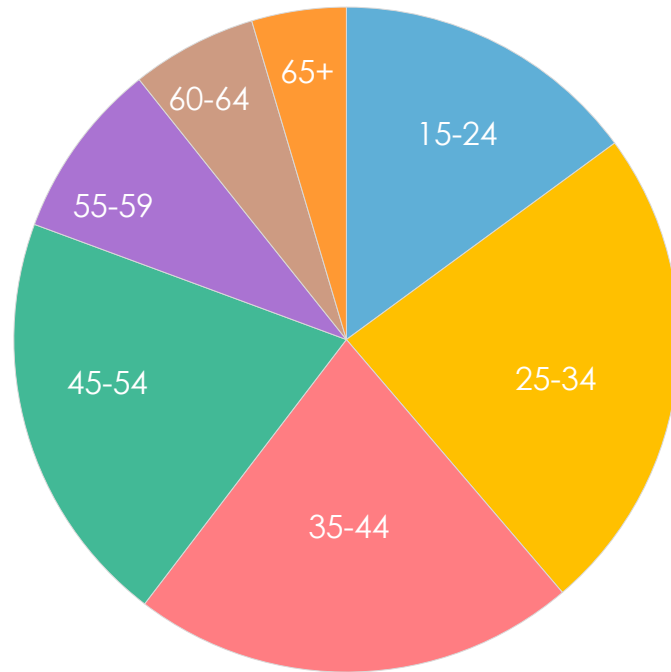


- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government’s responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by another 17,400 (1.8%) over the two weeks to 10th December, to just under 971,000 – down from a peak of 1.69 million in May 2020
- ❑ People displaced from employment during recent lockdowns were entitled to receive a range of other payments from the Federal or state governments, though these have now ceased with vaccination targets having been reached and lockdowns ended (see [slide 67](#))

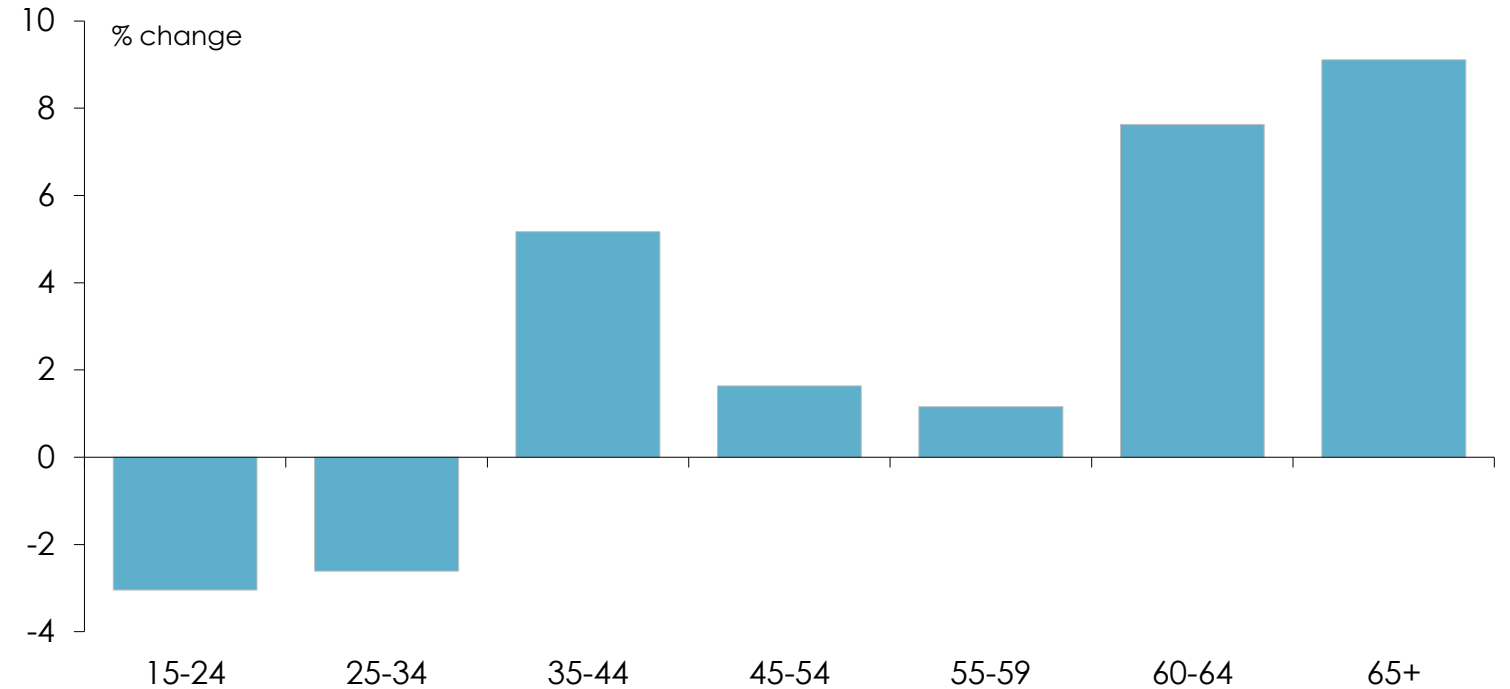
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

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Composition of employment by age group, February 2020



Change in employment between February 2020 and November 2021, by age group



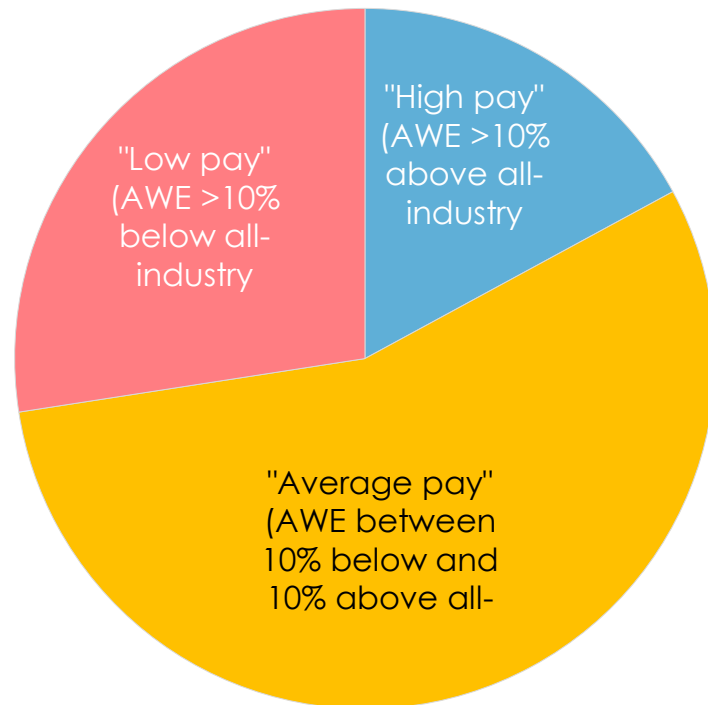
- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and 44% of all job losses between June and October this year – and despite a 1.3% recovery in November their employment is still down 3.3% from the pre-pandemic peak in February last year
- ❑ Likewise 25-34 year-olds accounted for 25% of all job losses between February and May last year, and for 34% of all job losses between June and October this year – their employment is still down 2.6% from February last year
- ❑ By contrast most older age groups have fared much better, in particular 35-44 year-olds, and the (relatively smaller number of) people aged 60 and over

Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), November 2021: November data will be released on 27th January. [Return to "What's New"](#).

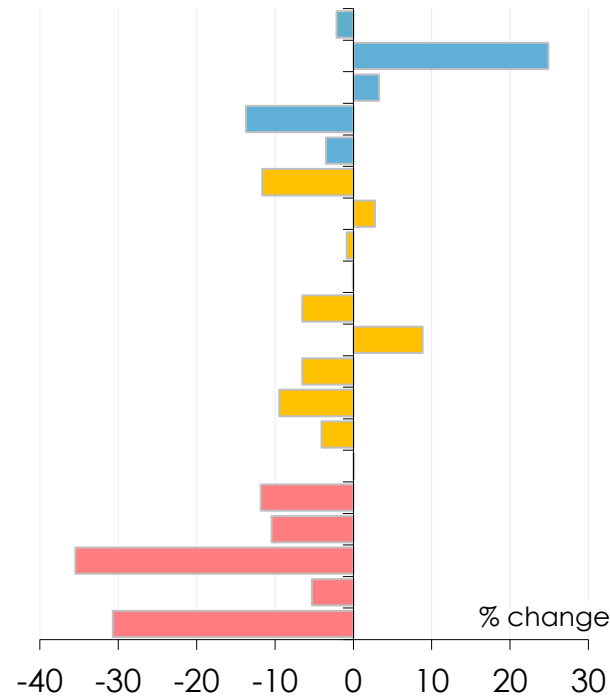
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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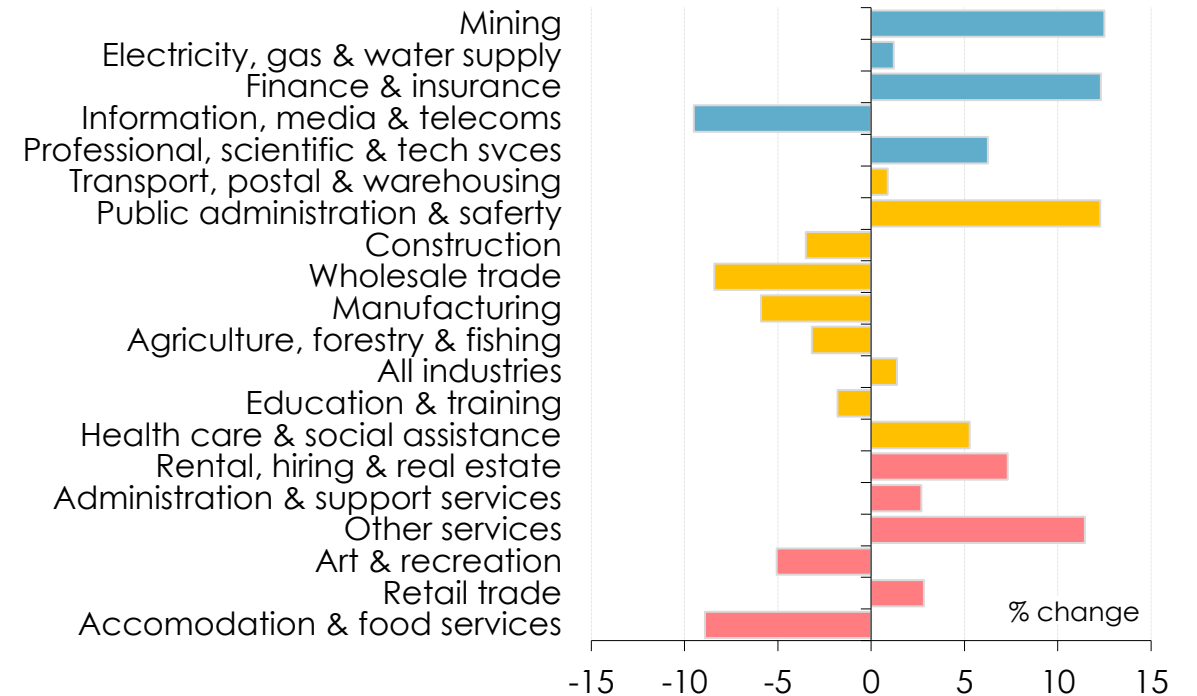
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry February-May 2020



February 2020 – November 2021



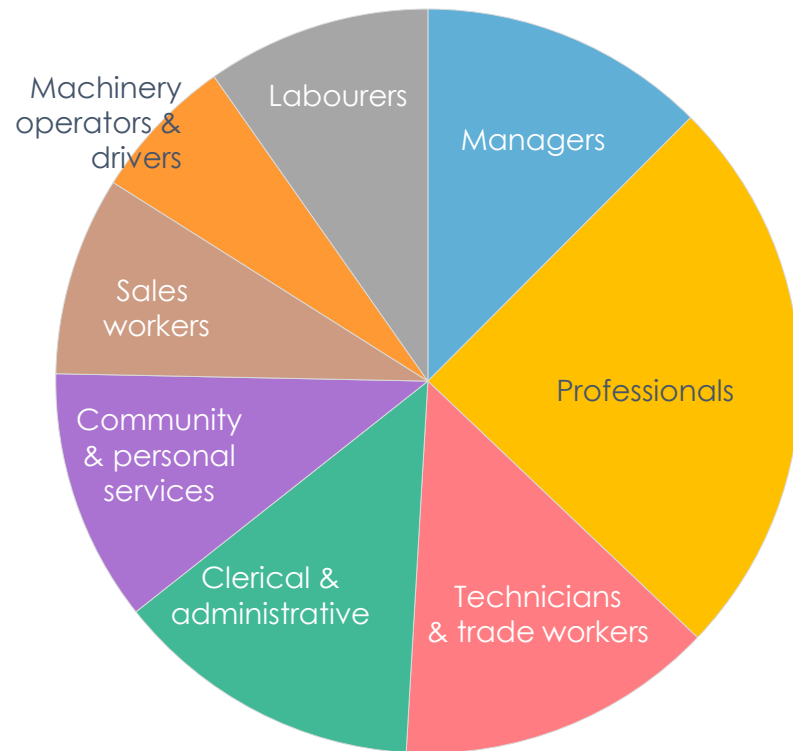
- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – and despite the recovery in November, employment in these industries was only 0.6% higher than in February 2020
- ❑ By contrast employment in “high pay” industries (17% of the pre-pandemic workforce) was 6.4% higher in November than it had been in February last year

Source: ABS, [Labour Force, Australia, Detailed](#), November 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 24th March. [Return to "What's New"](#).

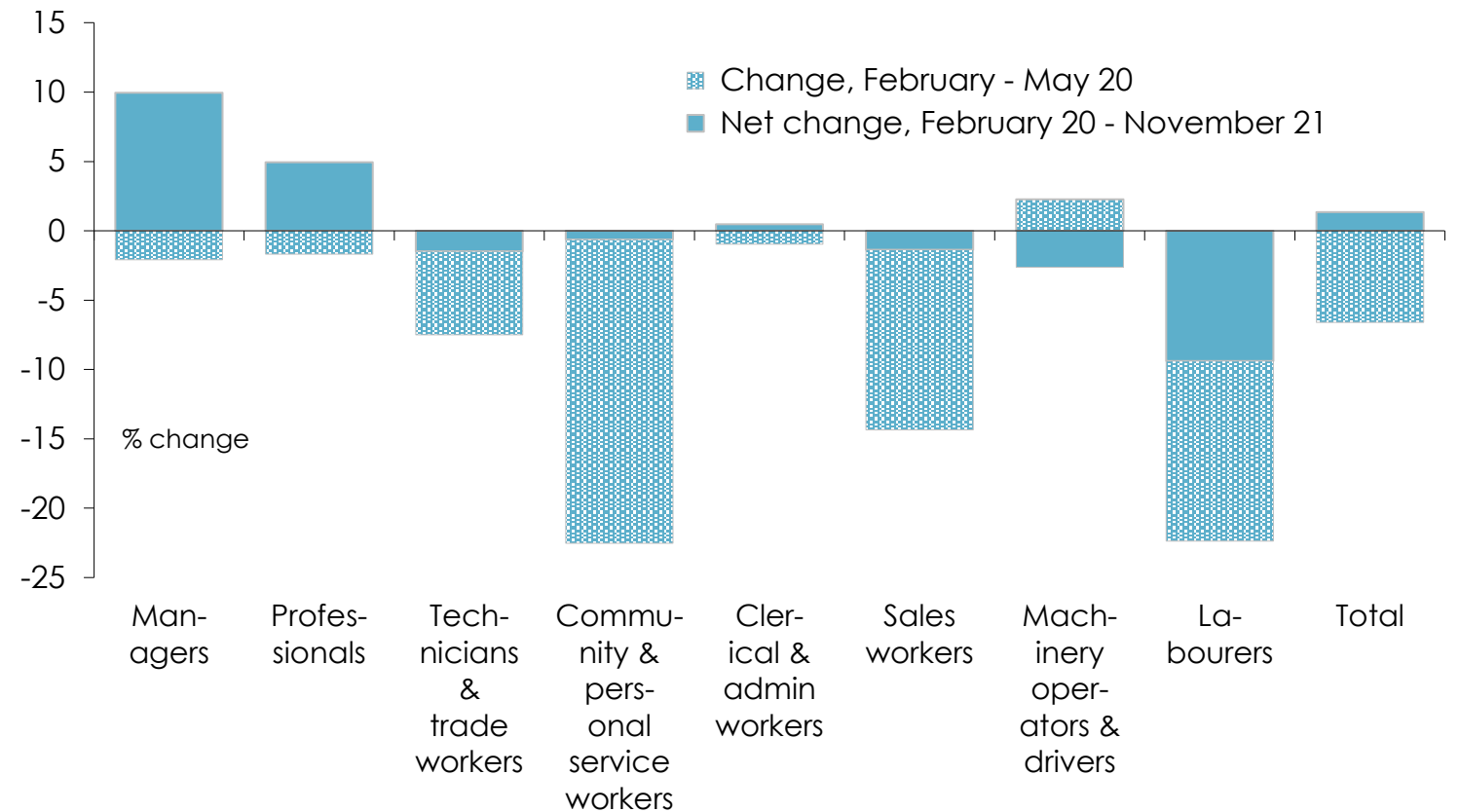
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

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Employment by major occupation category, February 2020



Change in employment between February 2020 and November 2021, by occupation



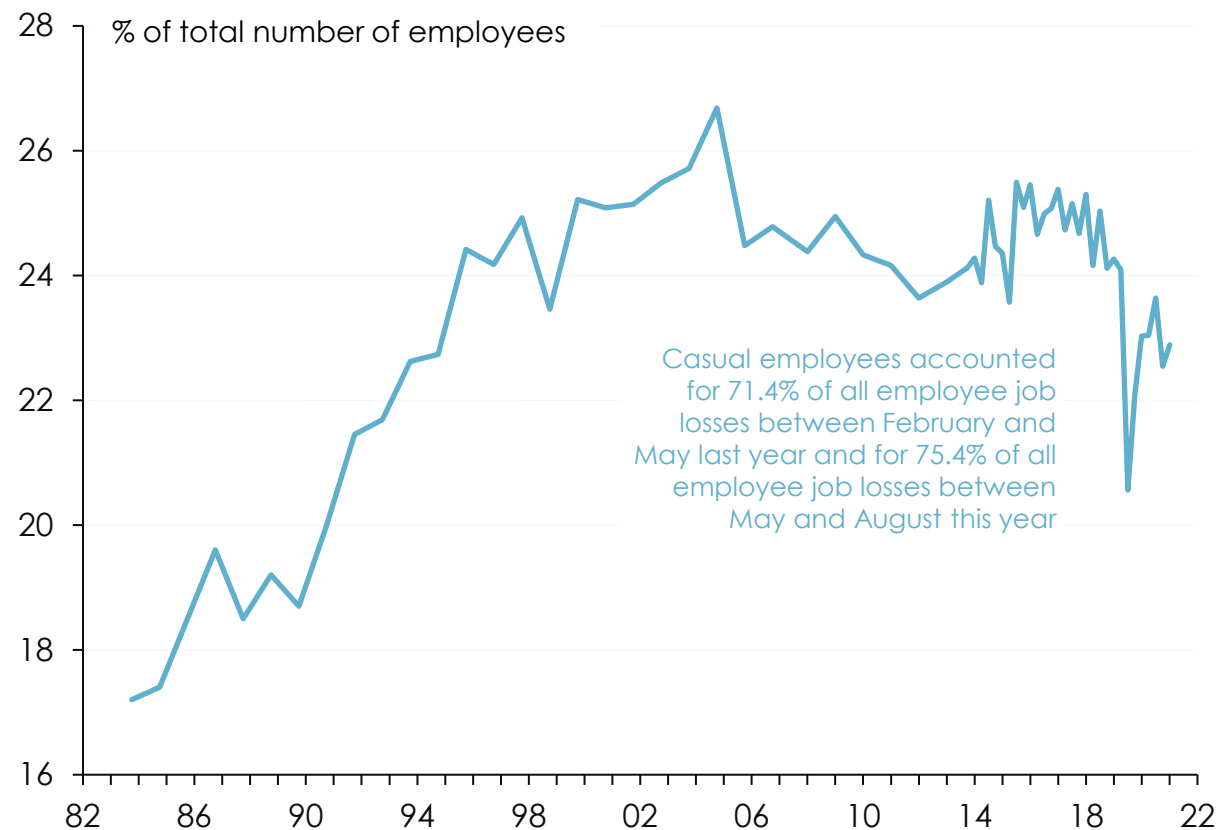
- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 3.8% fewer of them in November than in February last year
- ... whereas there are 6.6% more employed managers and professionals than there were in February last year

Source: ABS, [Labour Force, Australia, Detailed](#), November 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 24th March. [Return to "What's New"](#).

Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

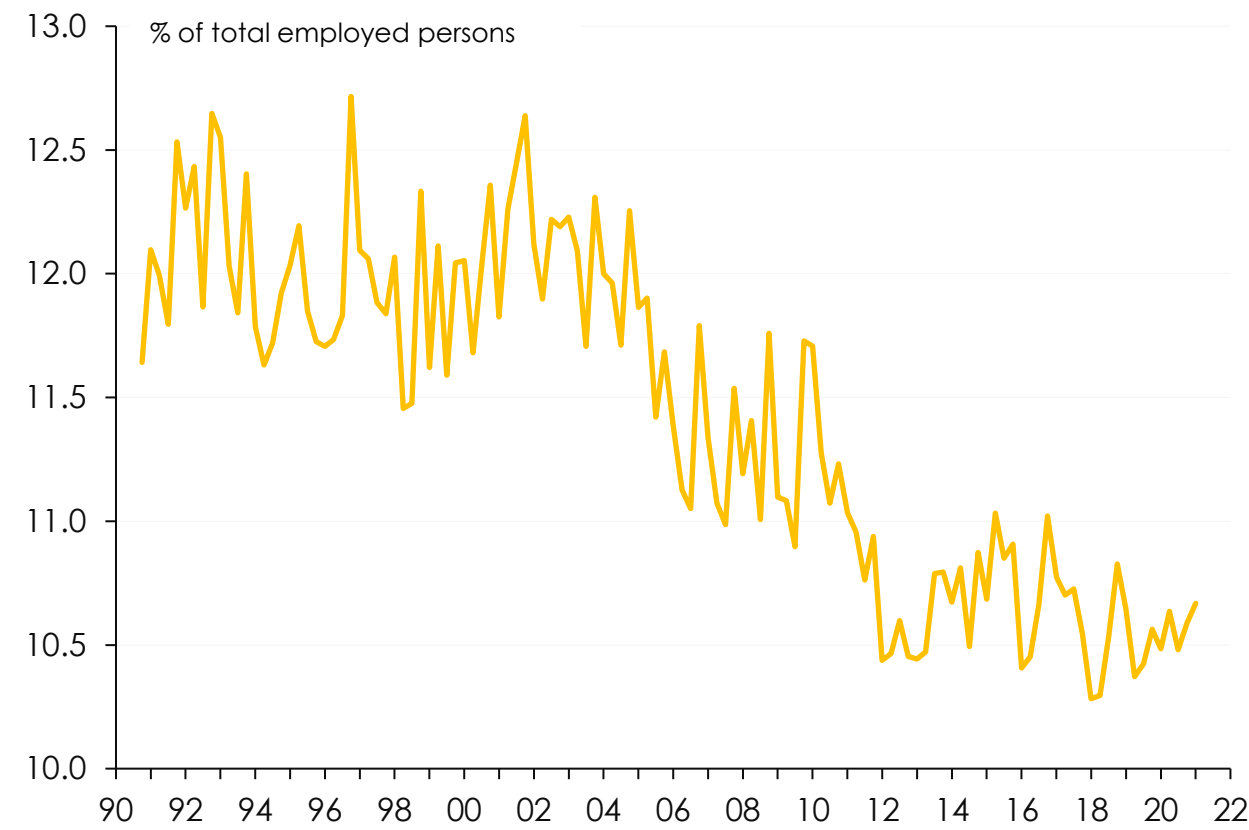
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'Casual' employees (those without any kind of paid leave entitlement) as a pc of total



- ❑ Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession

Owner-managers of unincorporated enterprises with no employees as a pc of total employment



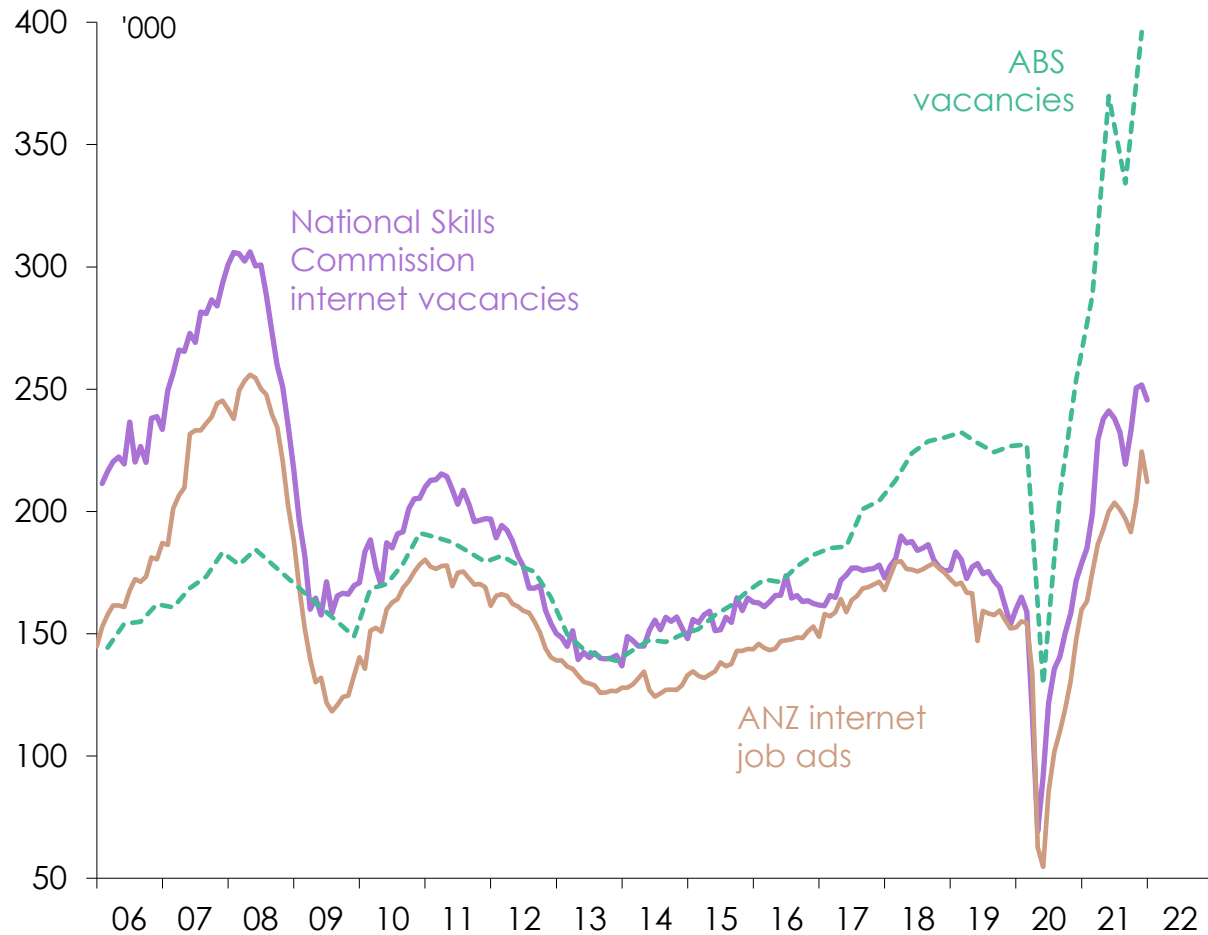
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents; [Labour Force, Australia, Detailed](#); and [Employee Earnings, Benefits and Trade Union Membership, Australia](#). [Return to "What's New"](#).

Job vacancies have rebounded swiftly from their recession lows – there are now fewer than two jobseekers for every vacancy, a record low

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Measures of job vacancies



- ❑ Job advertisements and vacancies fell only slightly during the NSW and Victorian lockdowns, and have rebounded strongly in October and November

Ratio of unemployed people to job vacancies

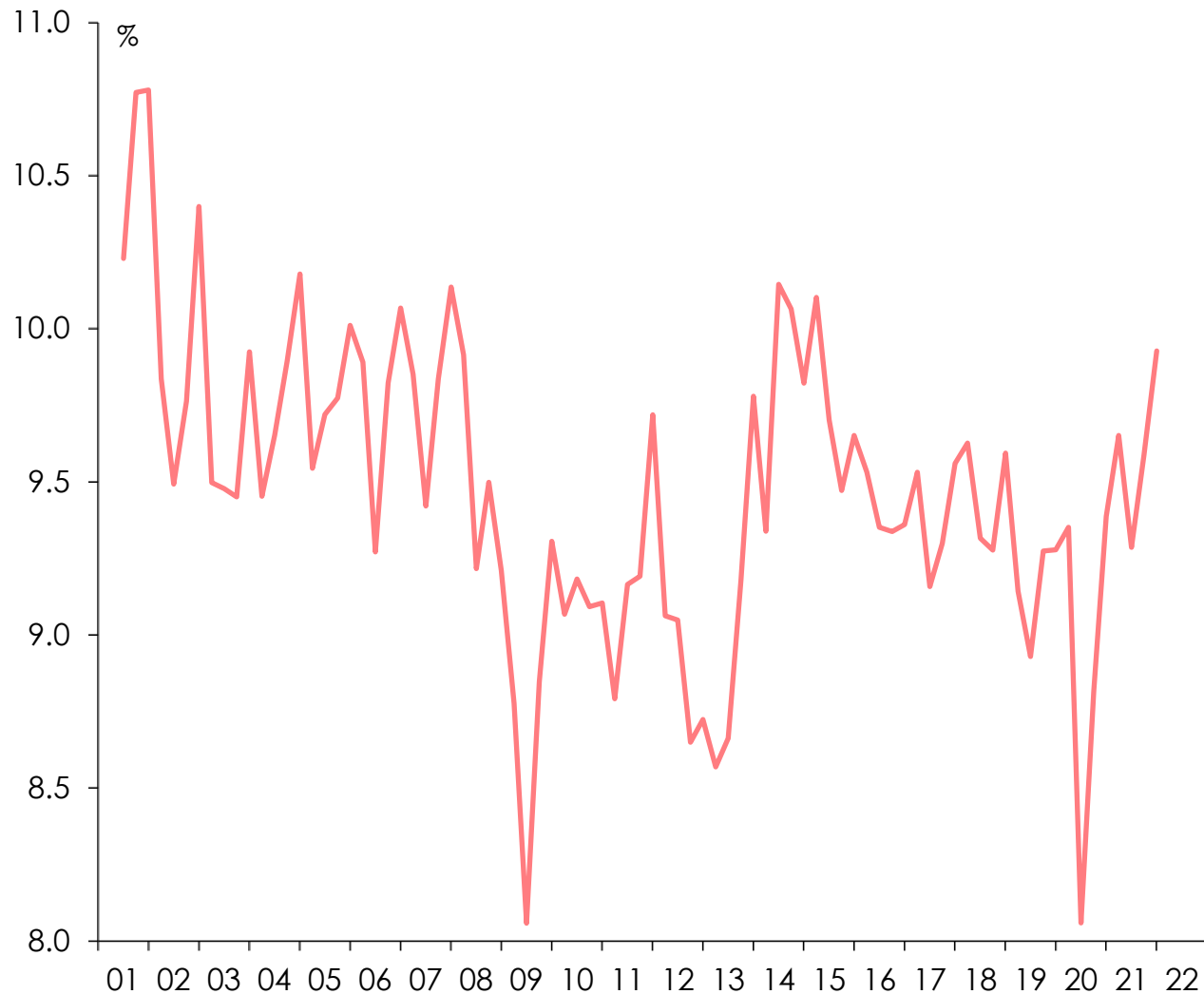


- ❑ There are fewer unemployed people for every job vacancy than at any other time in the past 43 years

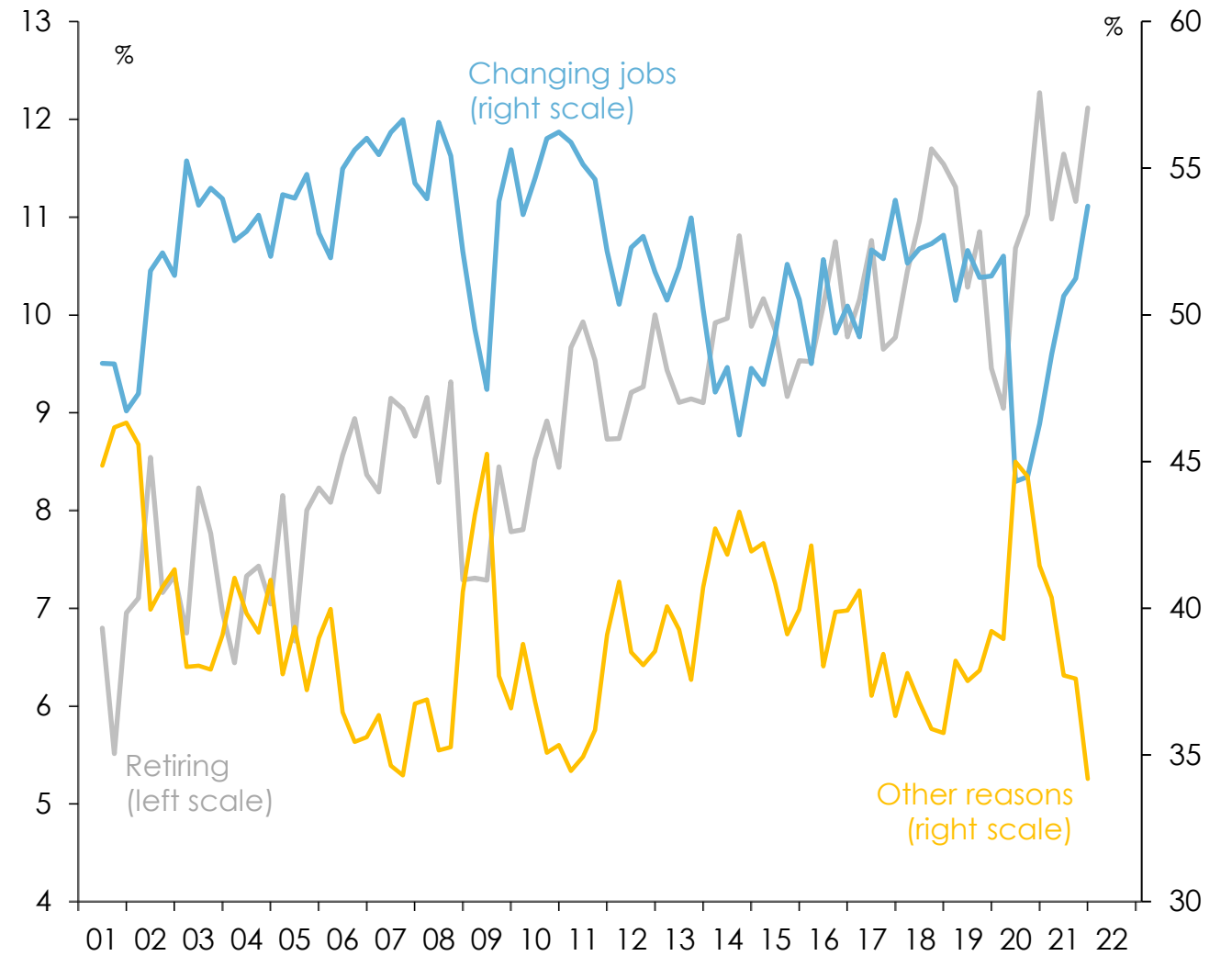
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

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Proportion of employees who don't expect to be with their current employer or business in 12 months' time



Reasons for not expecting to be with their current employer or business in 12 months' time



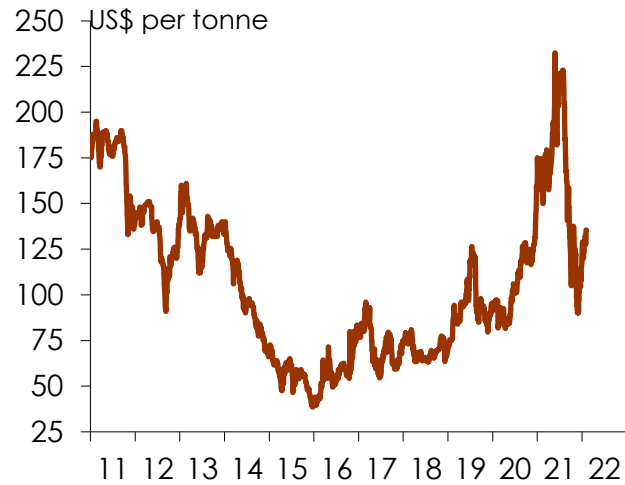
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table 17](#), November 2021.

Trade and the balance of payments

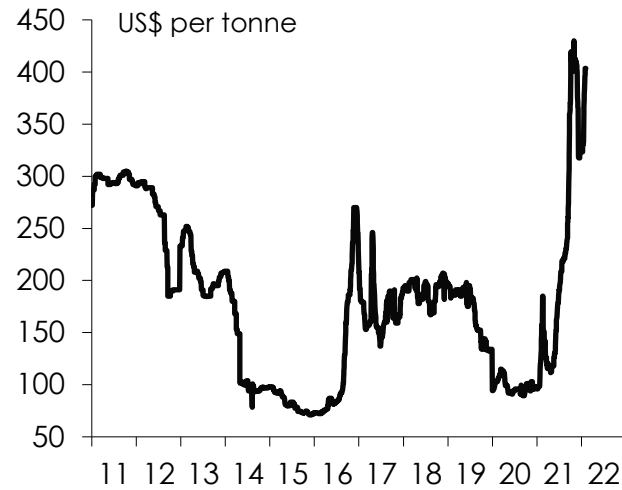
Coal prices have risen 20-32%, iron ore prices 10%, nickel prices 15%, and aluminium prices by 12%, since the beginning of this year

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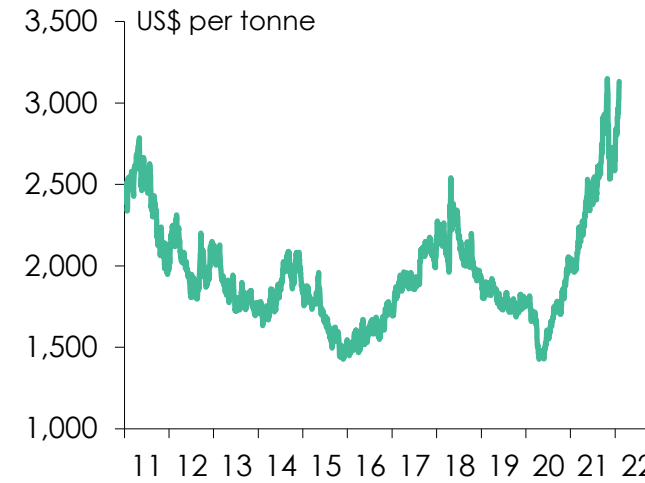
Iron ore



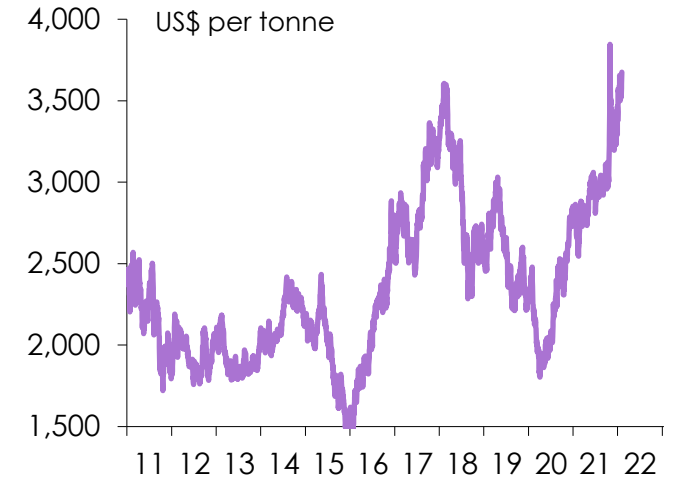
Metallurgical coal



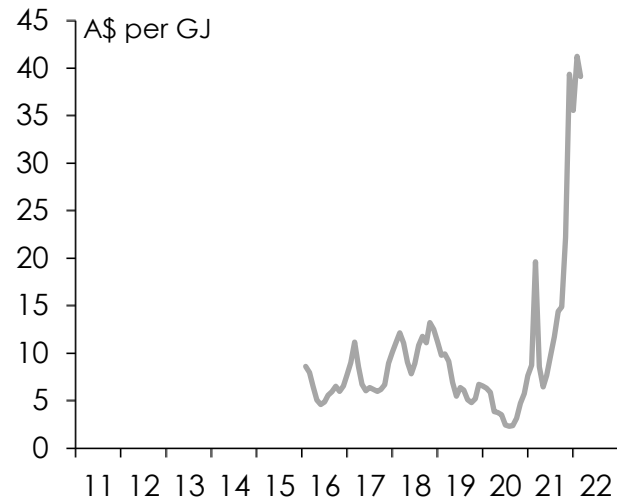
Aluminium



Zinc



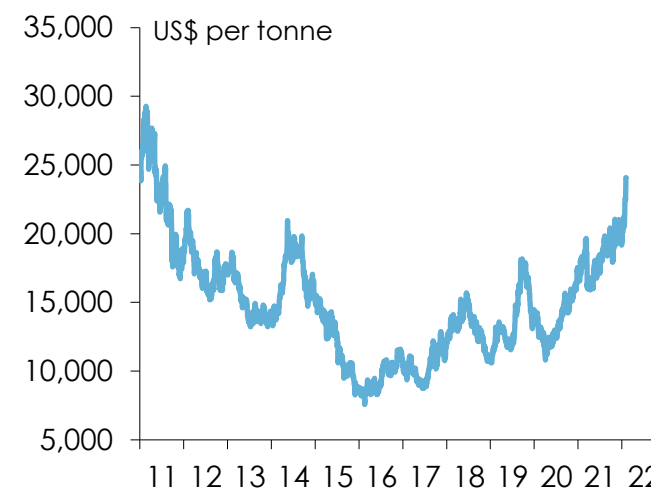
LNG



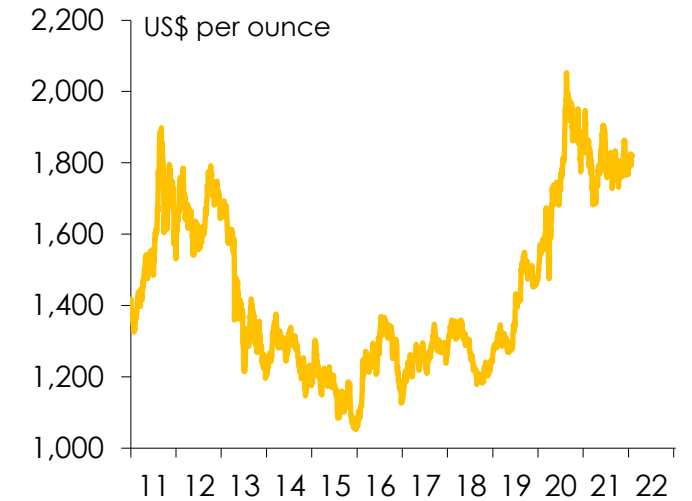
Thermal coal



Nickel



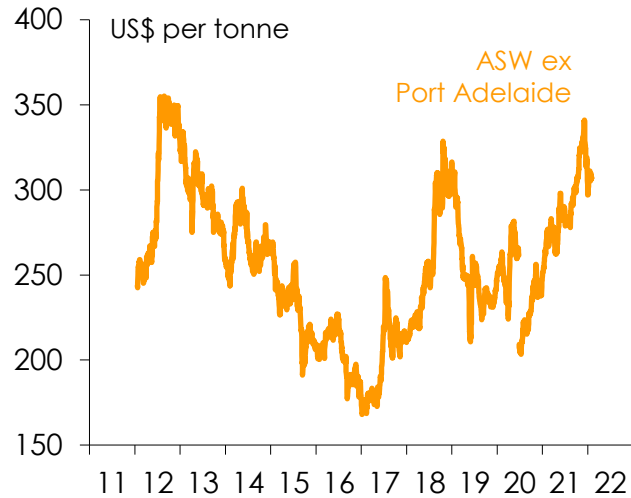
Gold



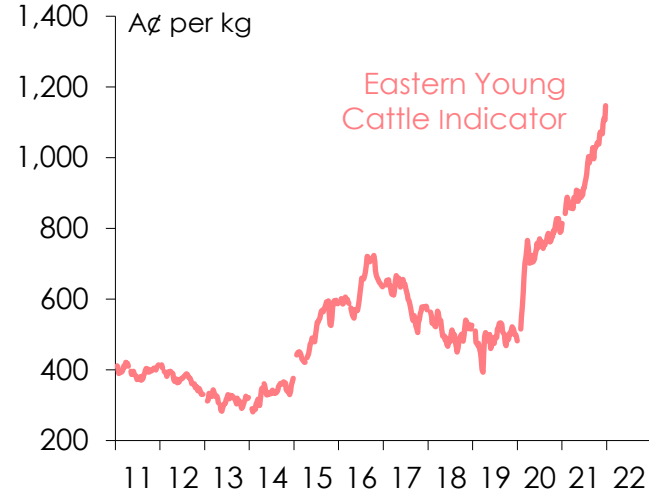
Among agricultural commodity prices, beef and milk have risen strongly so far this year but grain prices have fallen

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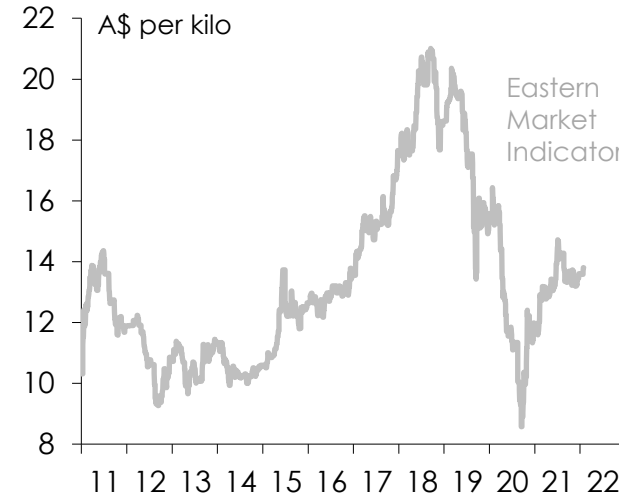
Wheat



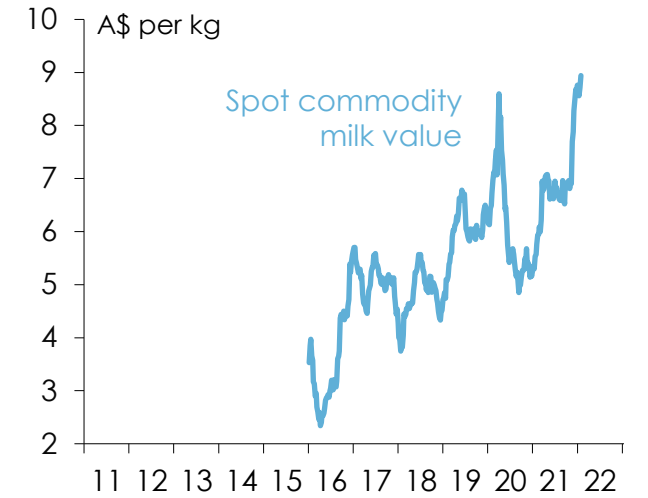
Beef cattle



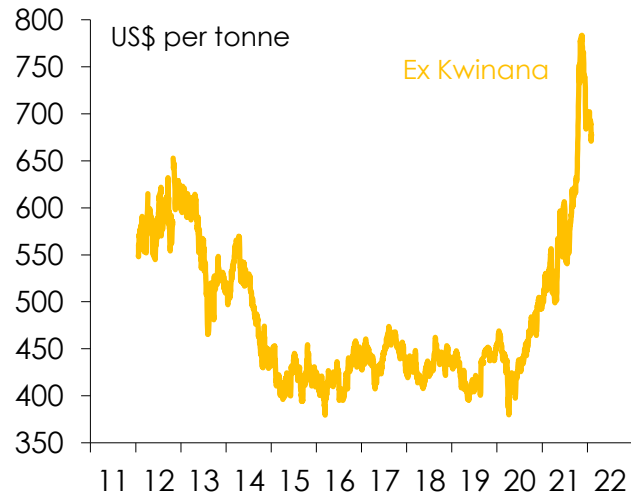
Wool



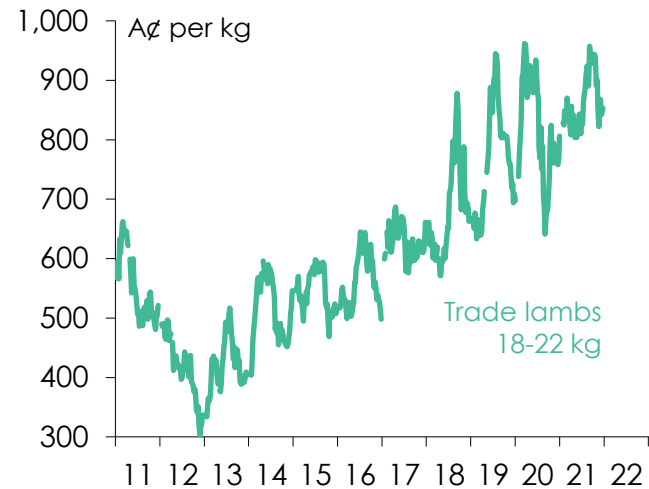
Milk



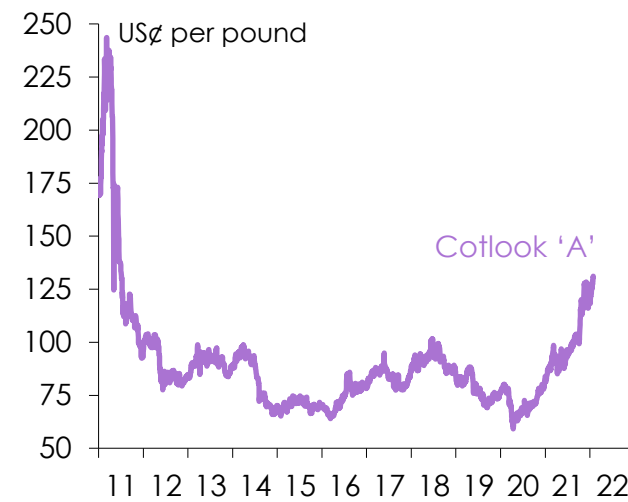
Canola



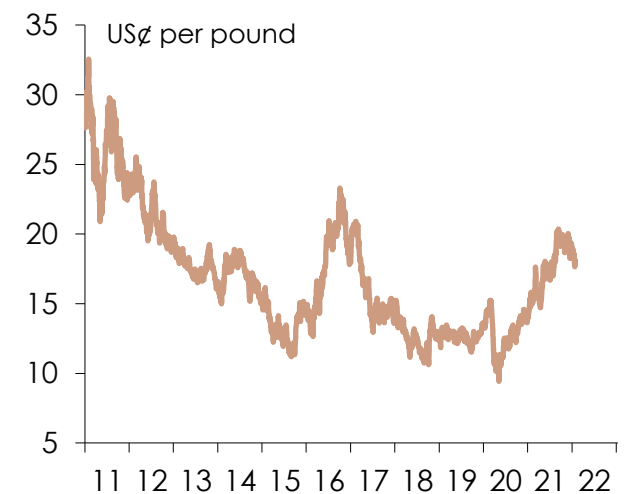
Sheep



Cotton



Sugar

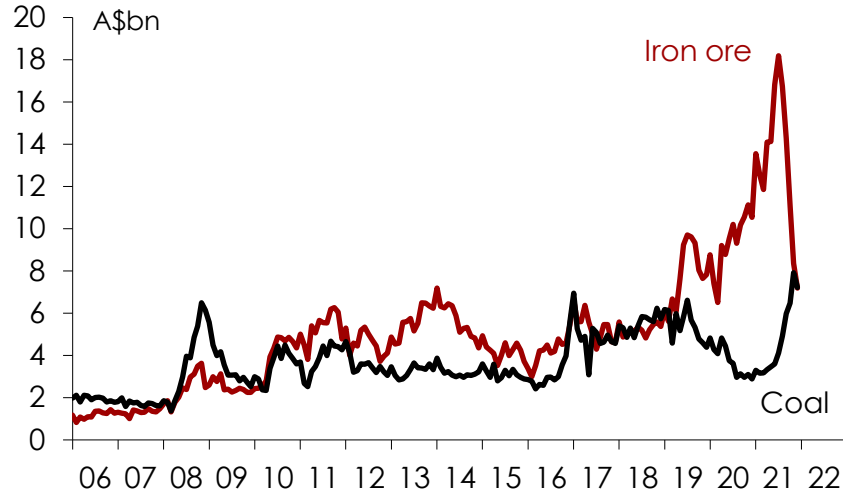


Sources: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), [Weekly Commodity Price Update](#); Australian Wool Innovation Ltd, [Market Intelligence Weekly](#); Meat & Livestock Australia, [Market Information Statistics Database](#); Australian Dairy Products Federation, [Milk Value Portal](#). Data up to 21st January. [Return to "What's New"](#).

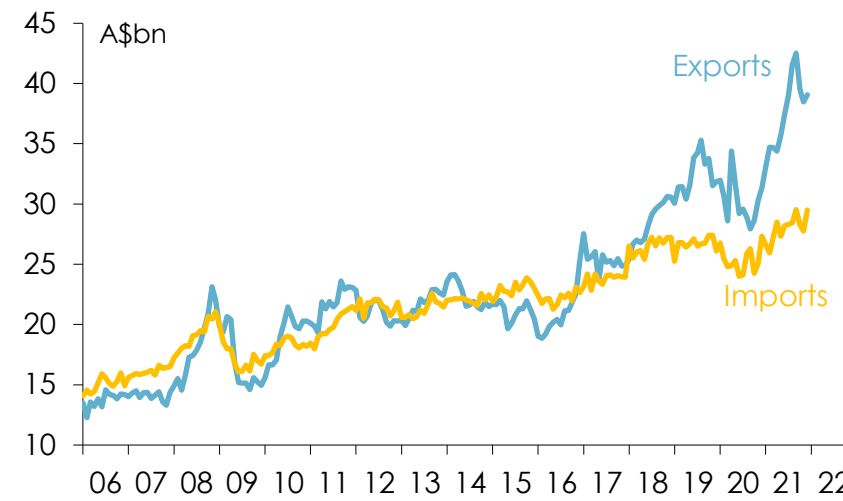
Australia's trade shrank by another \$600mn, to \$10³/₄bn, in November, largely due to falling iron ore exports – now supplanted by coal as #1

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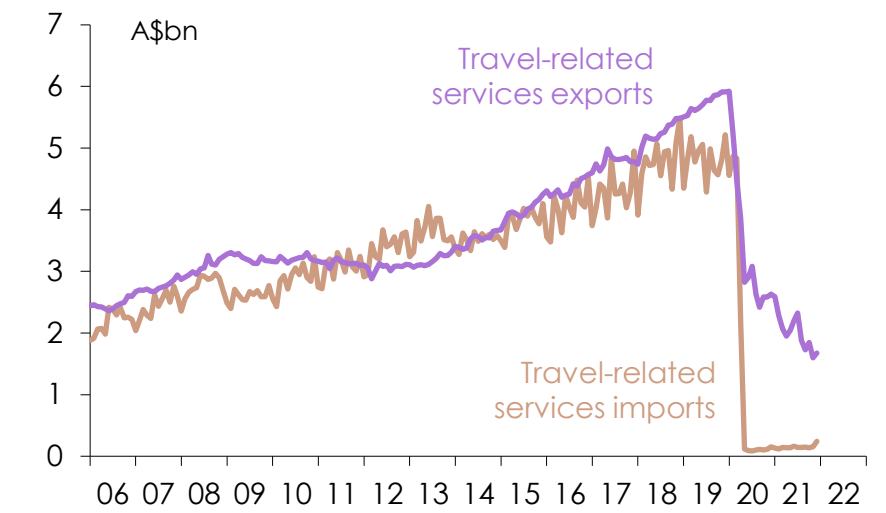
Iron ore and coal exports



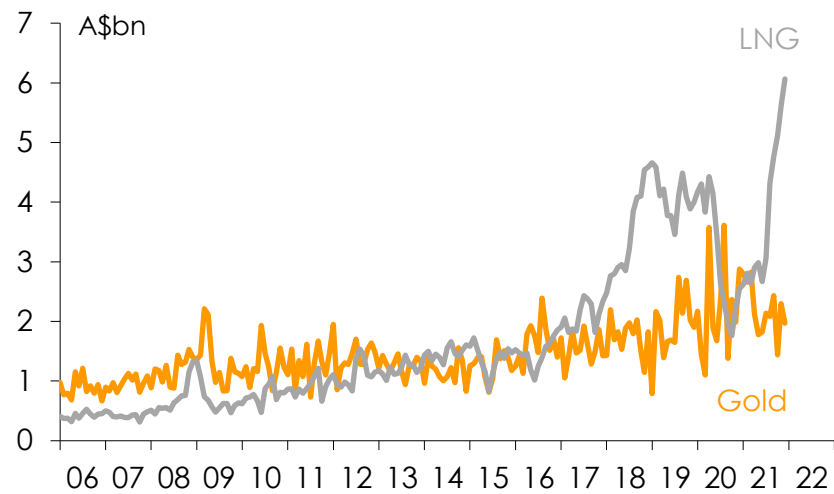
Merchandise exports and imports



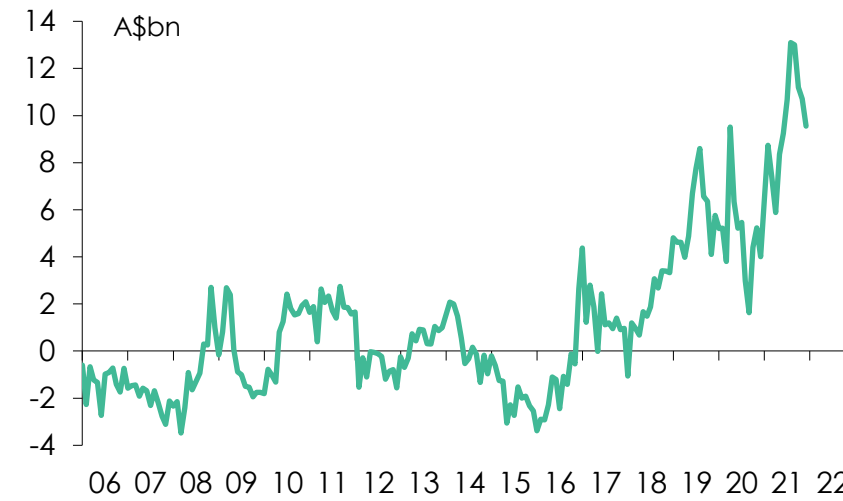
Tourism-related services trade



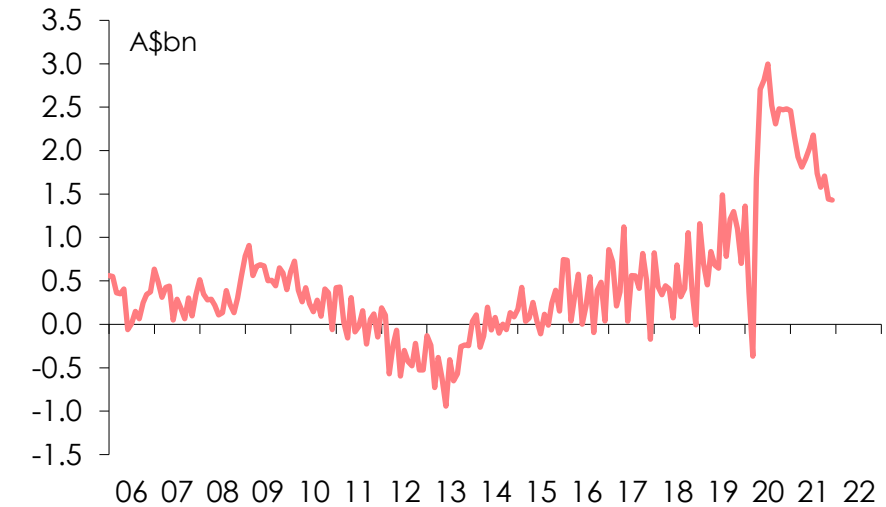
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

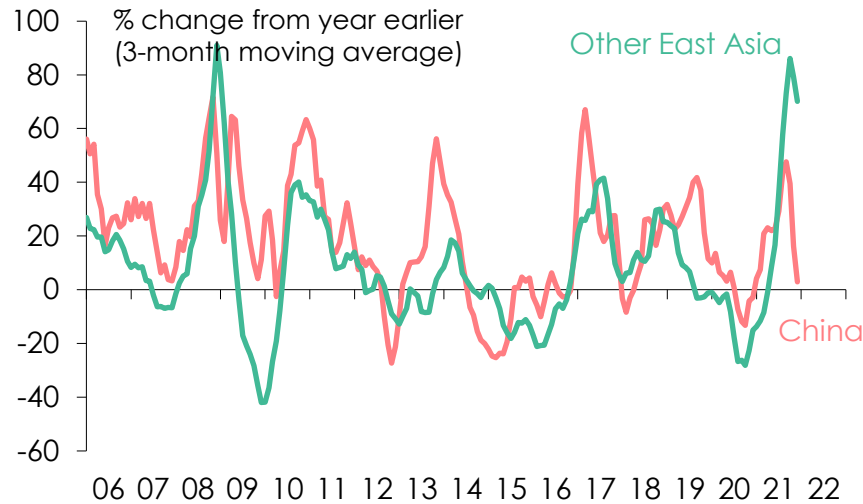


Source: ABS, [International Trade in Goods and Services, Australia](#), November 2021. December data will be released on 3rd February. [Return to "What's New"](#).

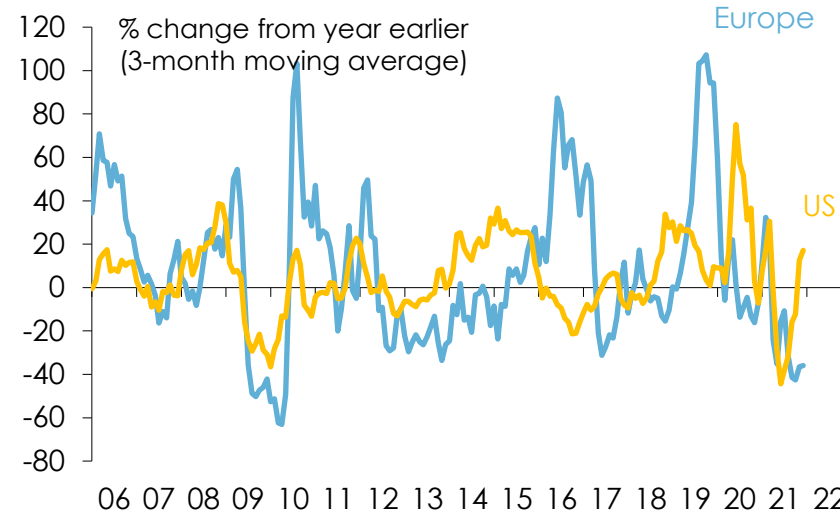
Australia's trade surplus with China has peaked as iron ore prices have eased, but surpluses with other Asian countries have increased

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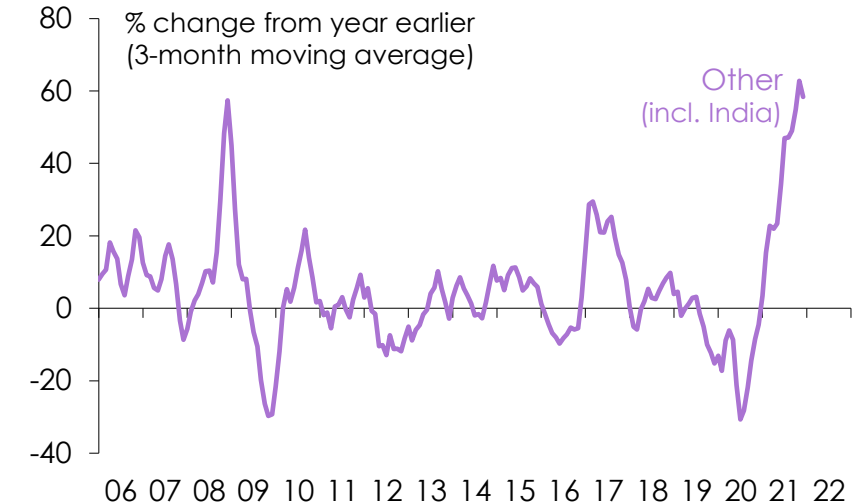
Merchandise exports – East Asia



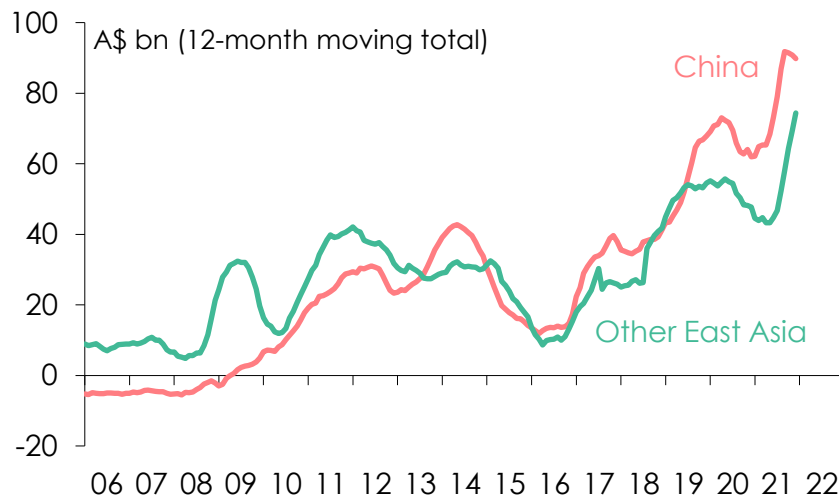
Merchandise exports – US & Europe



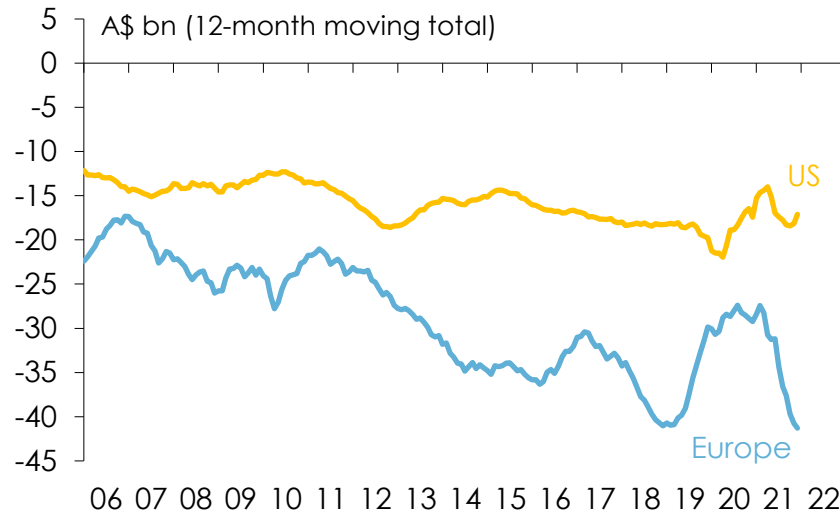
Merchandise exports – other



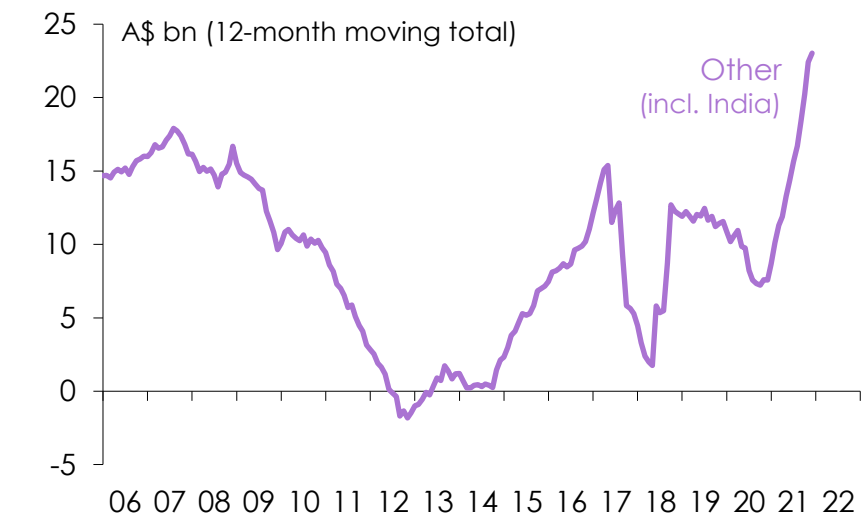
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

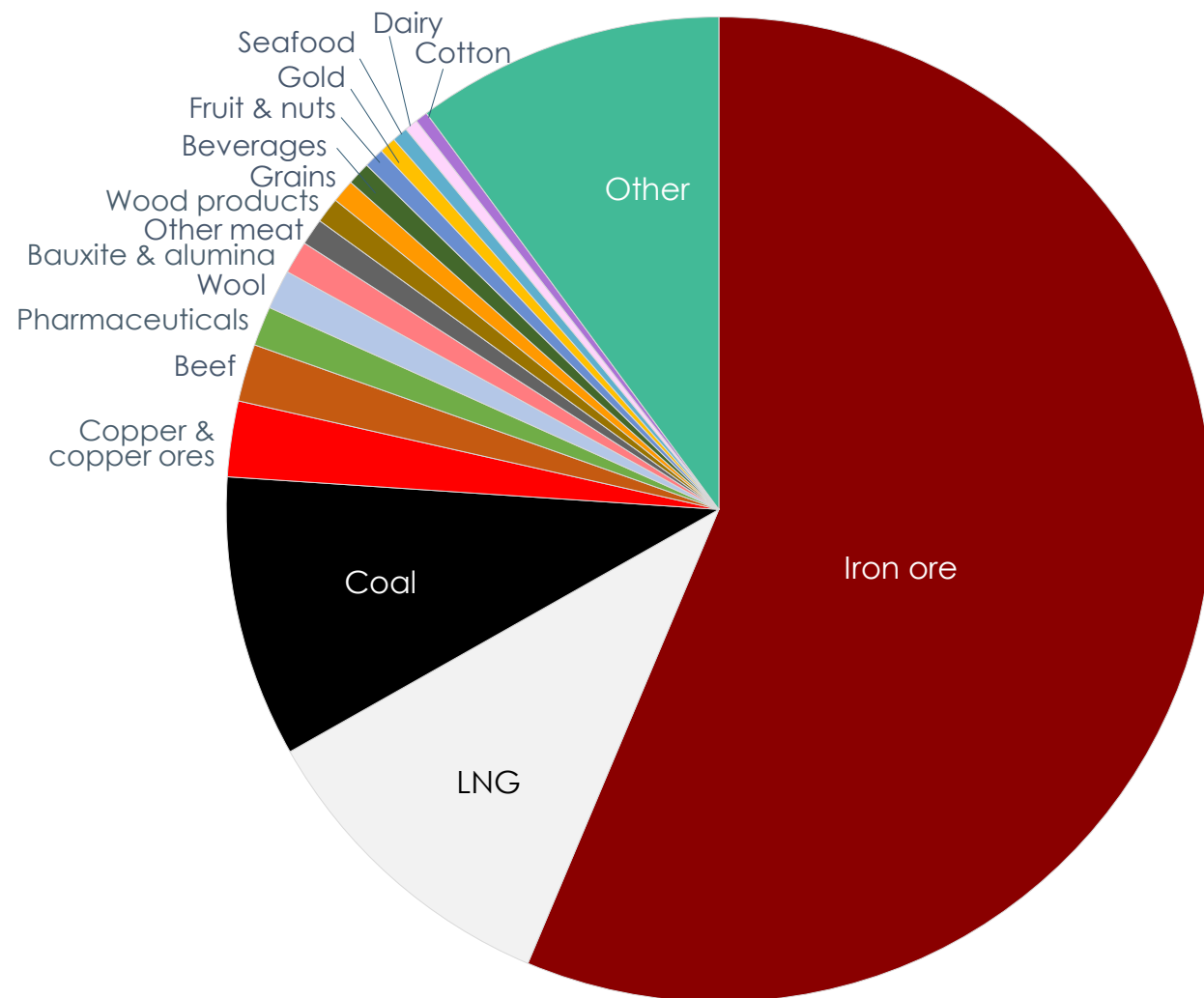


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), November 2021. December data will be released on 3rd February. [Return to "What's New"](#).

The bilateral relationship between Australia and its largest trading partner China seems unlikely to improve any time soon and could get worse

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Australia's merchandise exports to China, 2019-20



Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

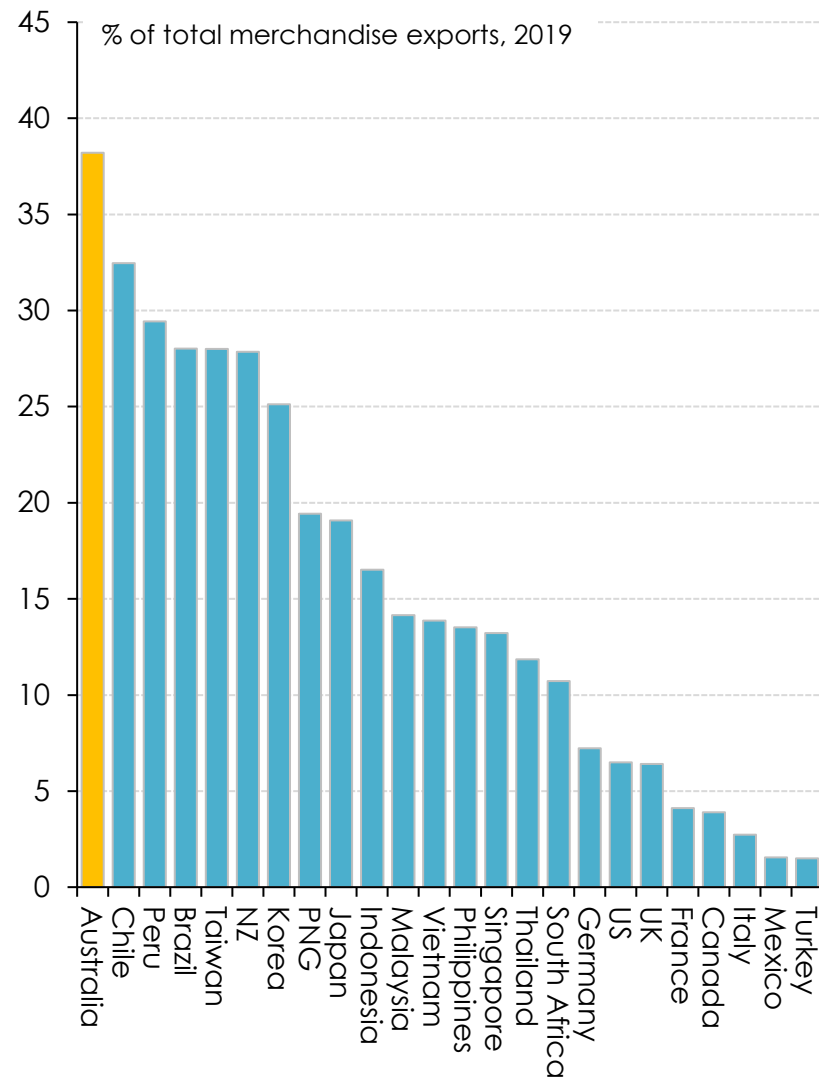
Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna. [Return to "What's New"](#).

- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore in the near term – but it has been progressively expanding the range of other Australian products subject to discriminatory tariffs, “customs inspections”, quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
 - Australia's [exports of these products](#) to China have dropped from about \$25bn in 2019 to an annualized rate of about \$5½bn since the sanctions were imposed – although in many cases Australian exporters have been able to find alternative markets
- ❑ In July China's Foreign Ministry [openly acknowledged](#) that it was seeking to 'punish' Australia for “groundlessly accusing and smearing China and undermining China's core interests based on ideology” and “acting as a cat's paw” for the United States – a view likely to intensify after the announcement in September of [a new defence pact](#) with the US and UK
- ❑ Another looming flashpoint in the bilateral relationship may come from the forthcoming review (by the Defence Department) of the 2015 [lease of the Port of Darwin](#) to a Chinese company ([Landbridge](#))

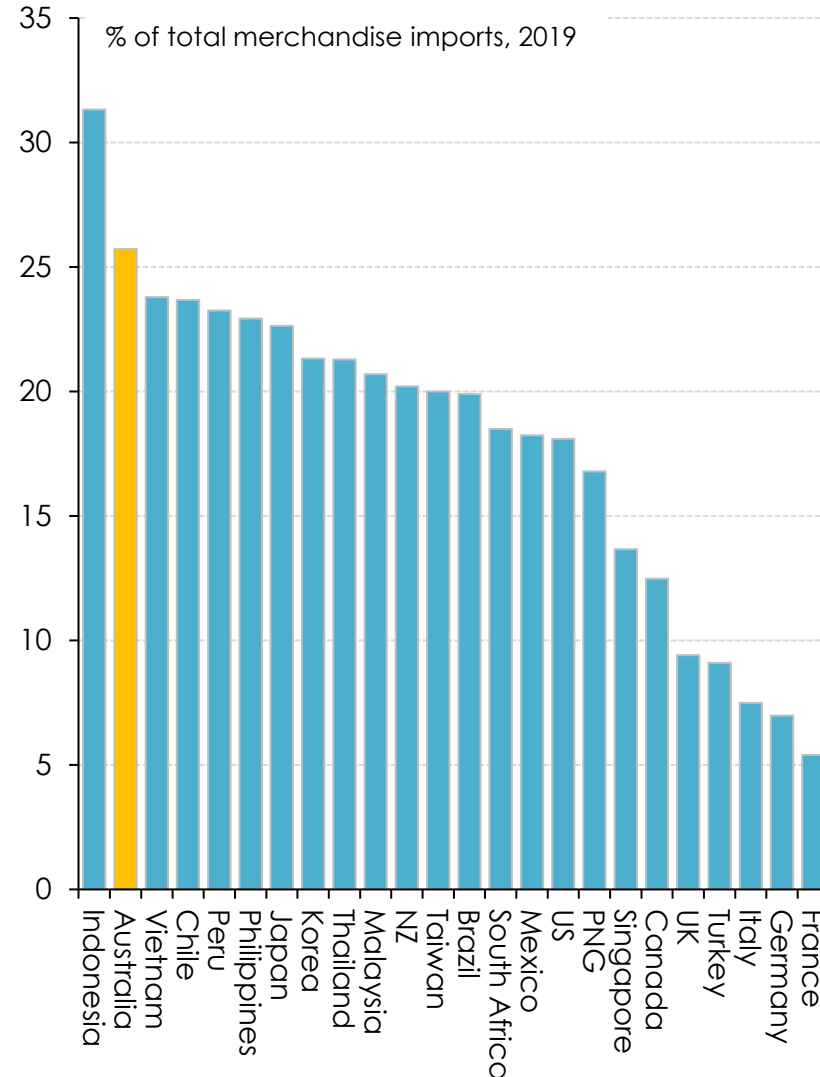
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

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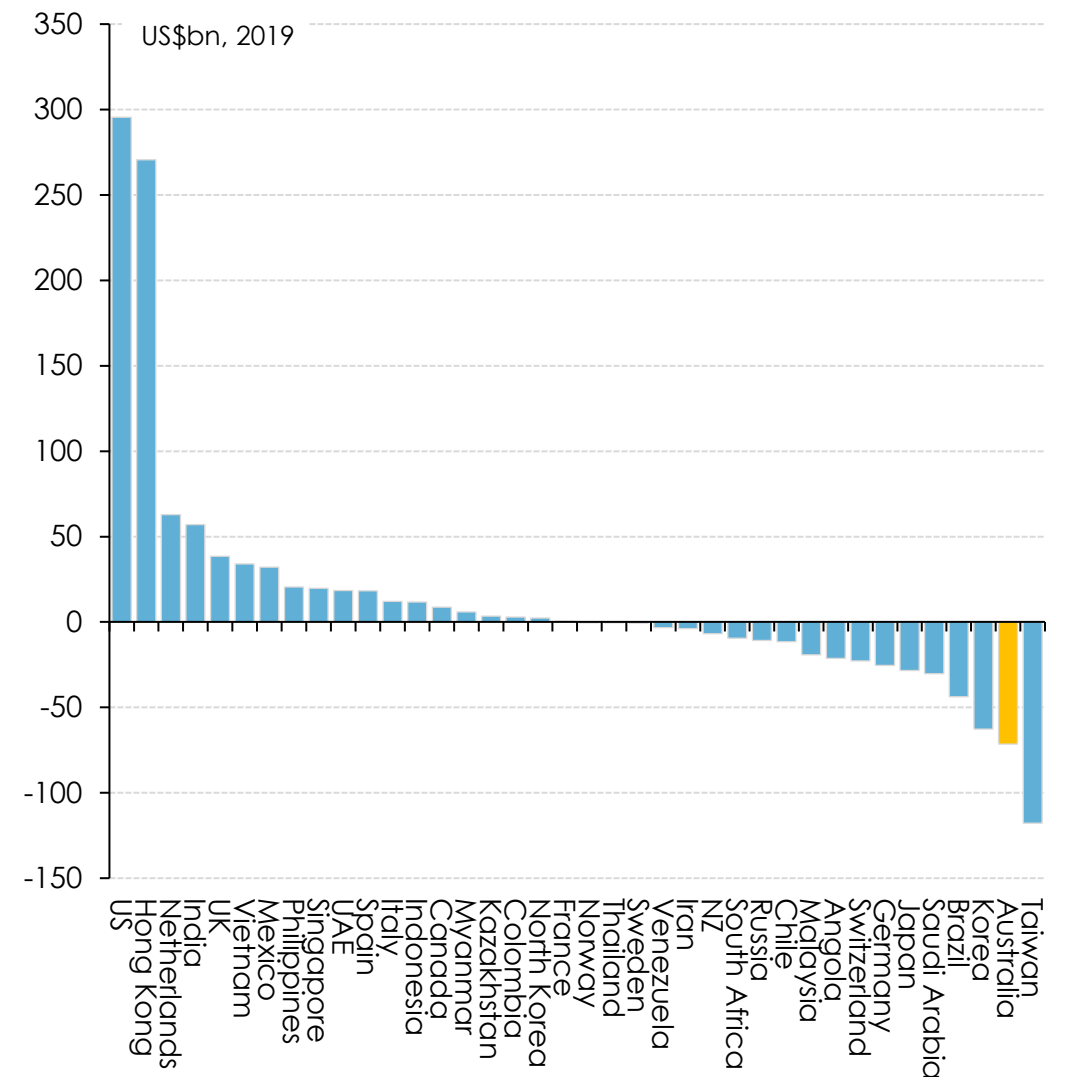
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances

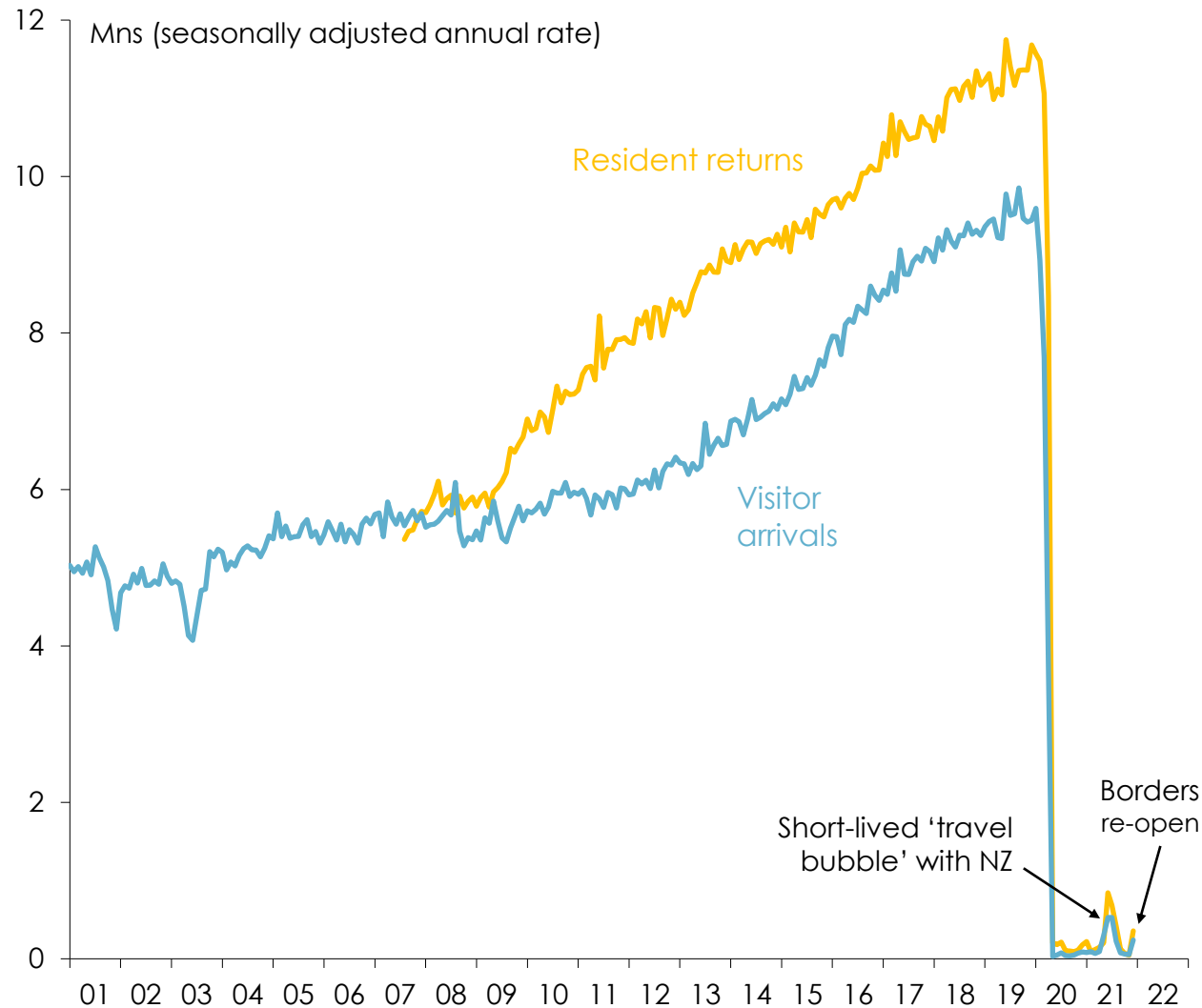


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

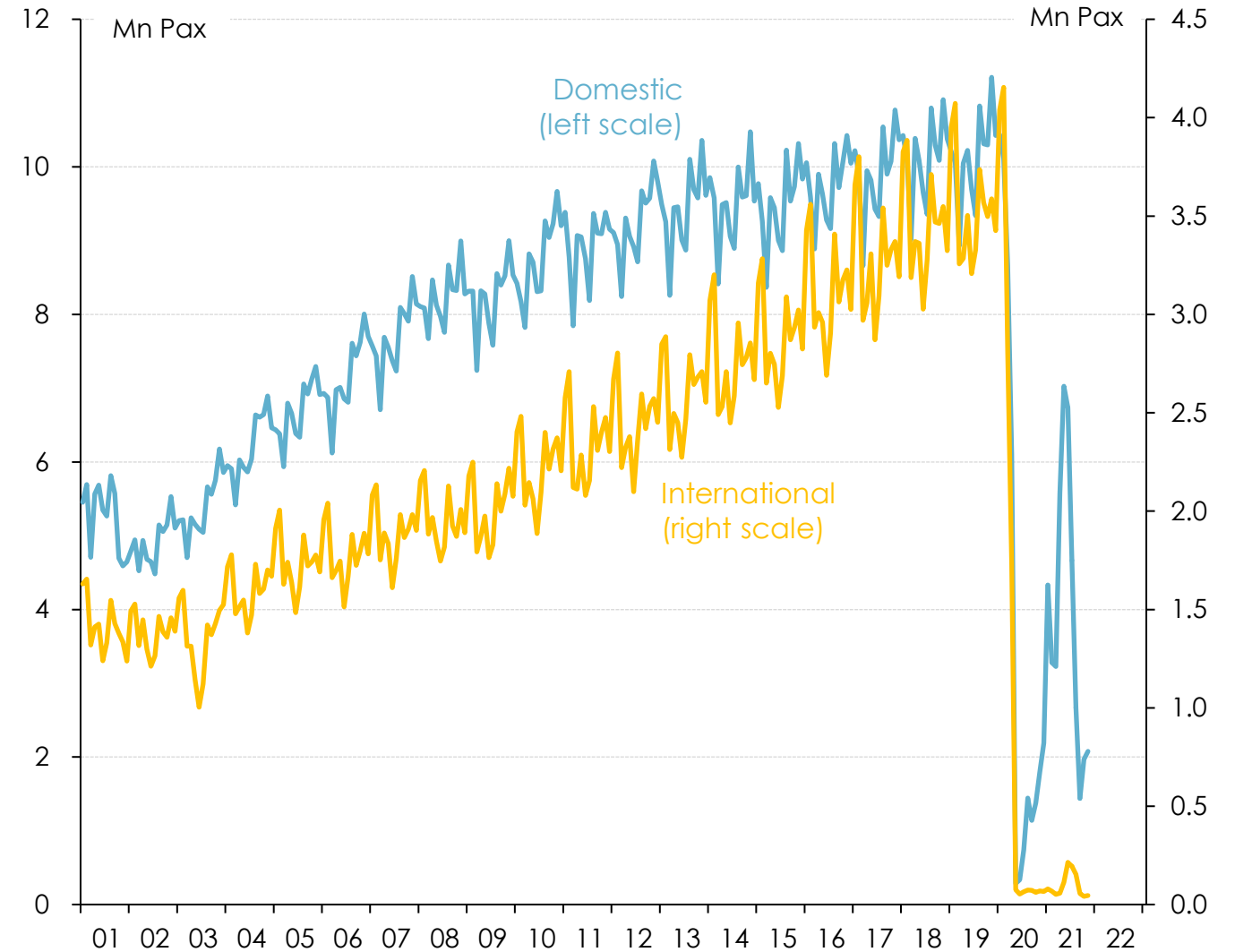
Domestic aviation picked up strongly between last November and May – but has since slumped with the lockdowns and tighter arrivals caps

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Short-term visitor arrivals and resident returns



Airport passenger movements

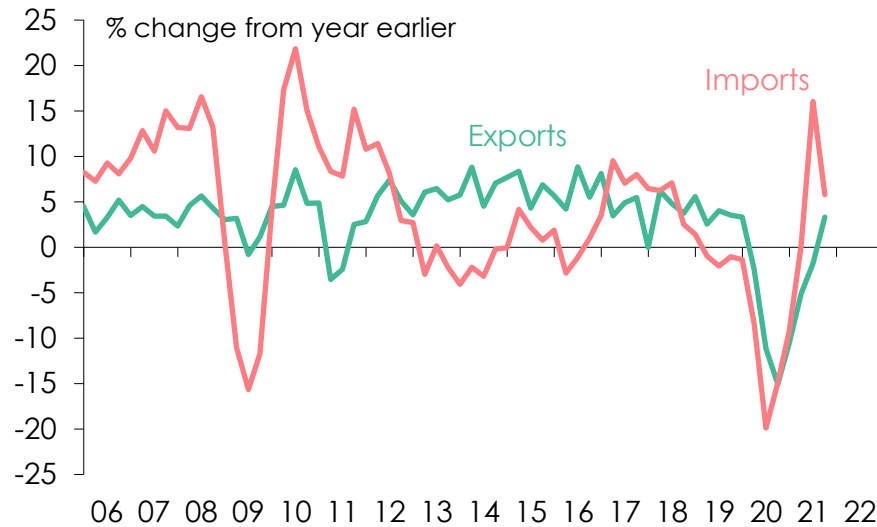


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest ABS data on arrivals and departures are for November; BITRE data on airport passenger movements are for October 2021. Sources: [ABS](#); [Bureau of Industry, Transport and Regional Economics \(BITRE\)](#); Corinna. [Return to "What's New"](#).

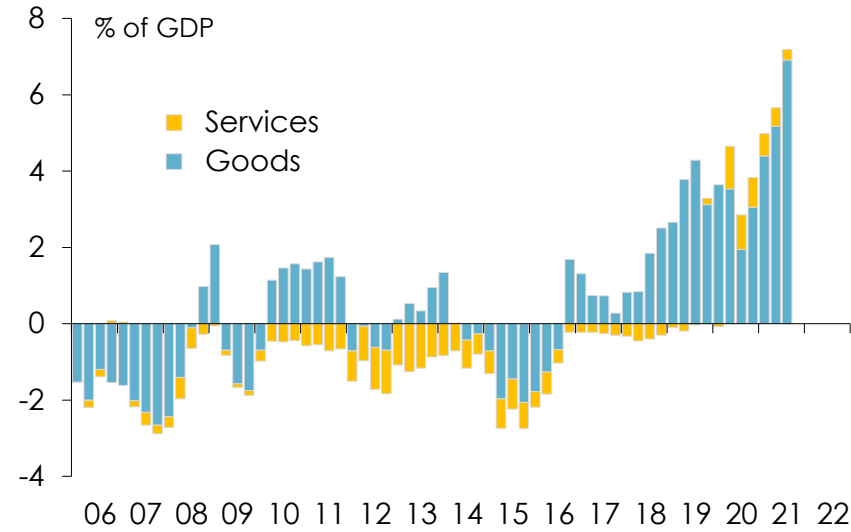
Australia posted another record current account surplus in the Q3, thanks to another large gain in export prices – but that’s probably the peak

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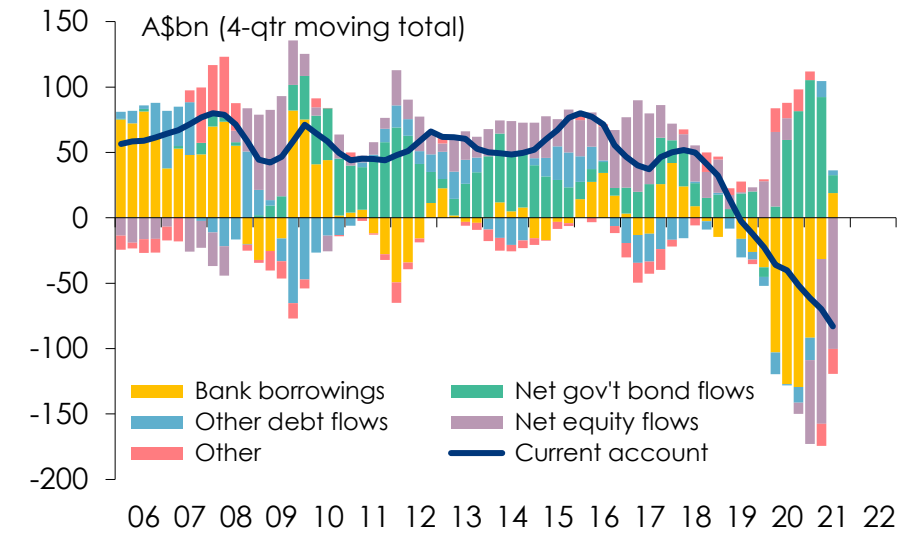
Export and import volumes



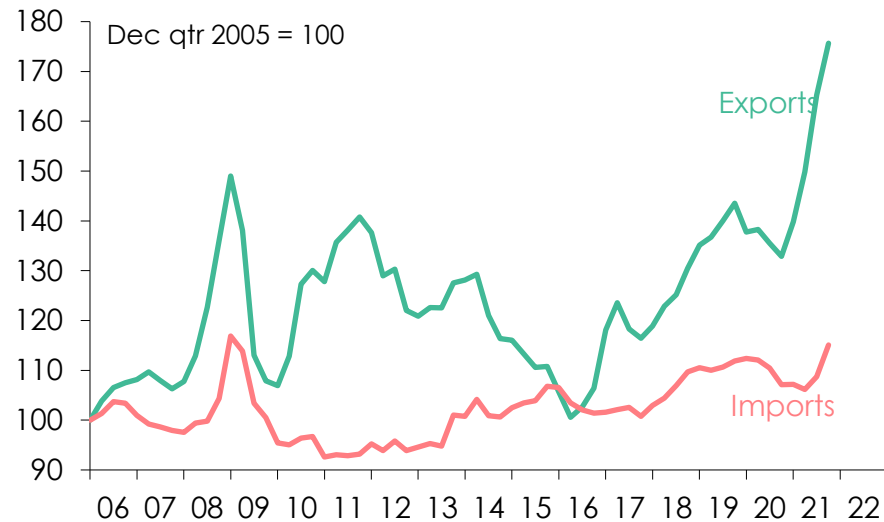
Goods & services trade balances



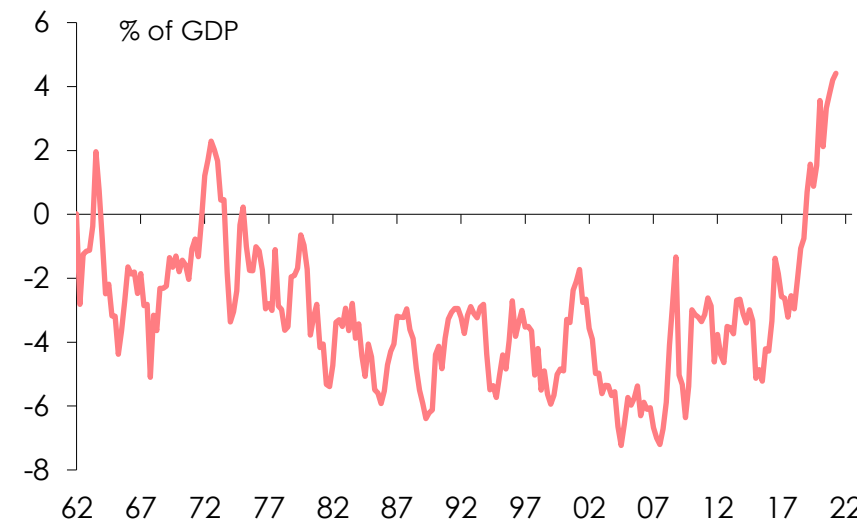
Capital flows



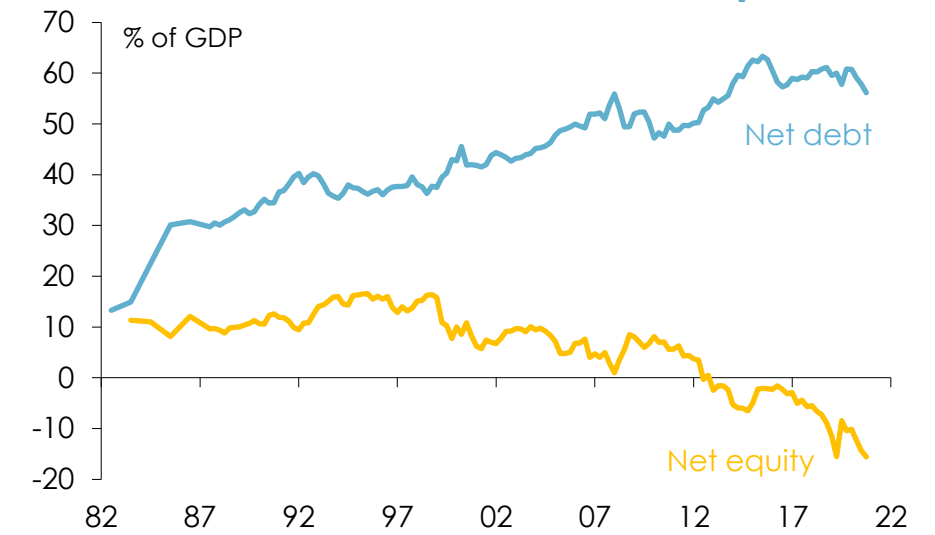
Export and import prices



Current account balance



Net international investment position



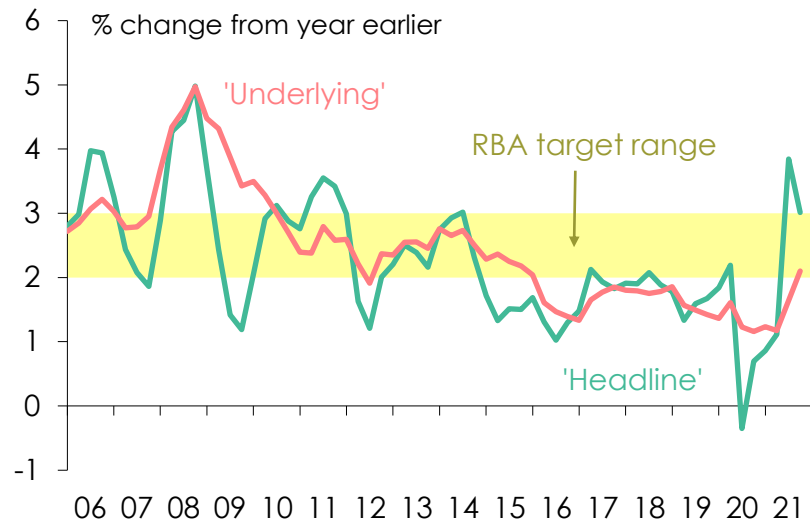
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a positive and net equity assets as a negative. Latest data are for the September quarter 2021; December quarter data will be released on 1st March 2022. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

Inflation

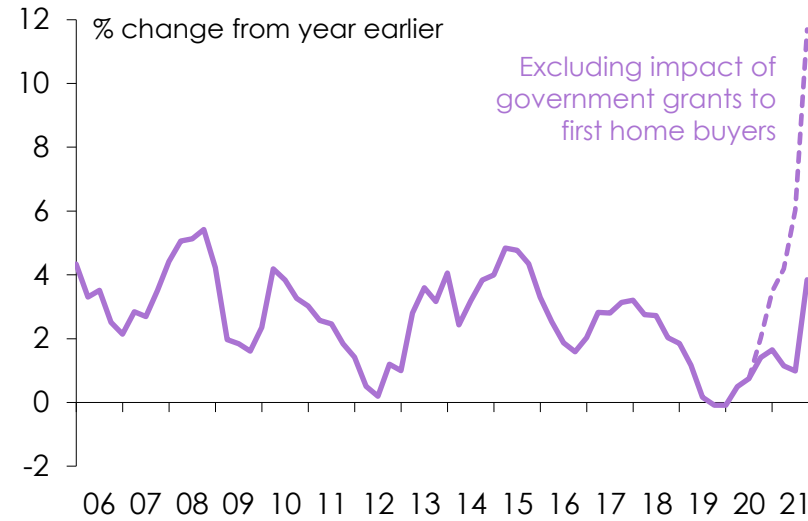
The 'headline' CPI rose 0.8% in Q3 last year, as expected, but 'underlying' inflation surprised rising 0.7%, pushing the annual rate above 2%

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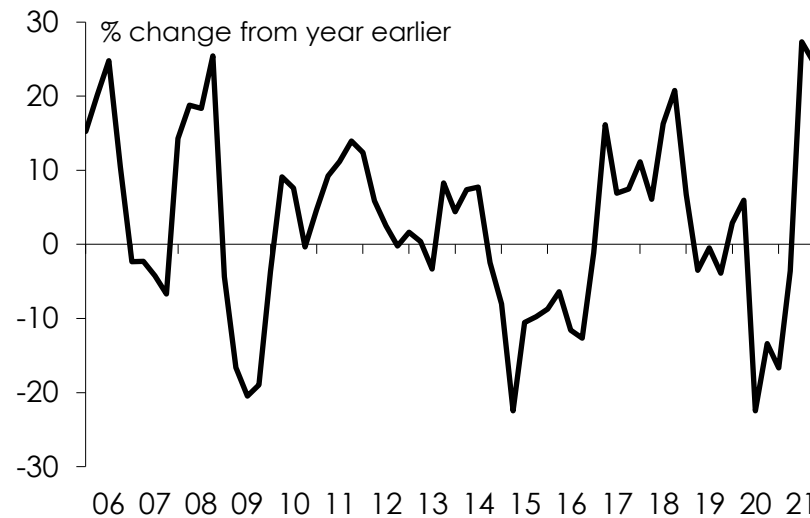
Consumer prices



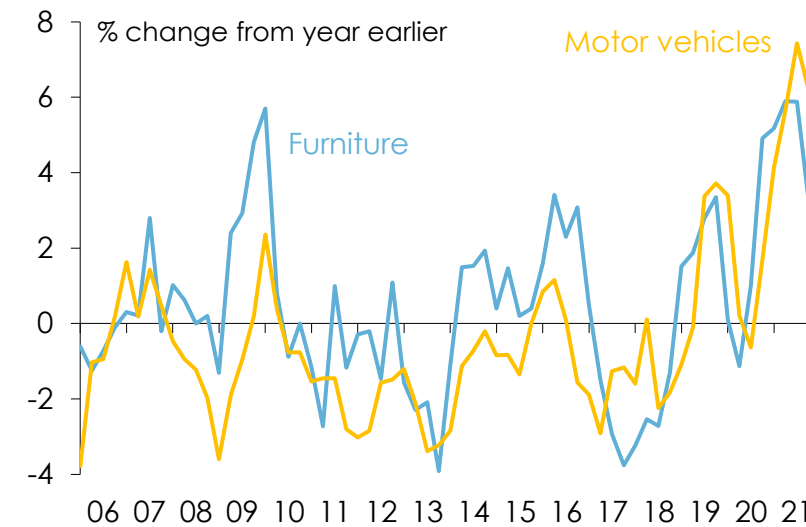
New dwelling purchase costs



Automotive fuel prices



Supply-chain affected prices



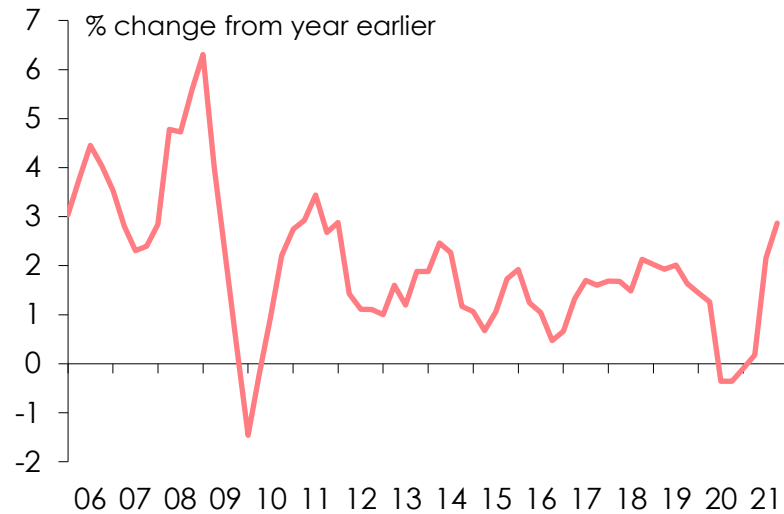
- ❑ The CPI rose 0.8%, as expected, in Q3, with the annual rate (which had been inflated in Q2 by 'base effects' especially from free child care in Q2 last year) falling from 3.8% to 3.0%
- ❑ But the statistical measures of 'underlying' rose a larger-than-expected 0.7%, the biggest quarterly increase since Q4 2013, pushing the annual 'underlying' inflation rate to 2.1%, the first time it has been inside the RBA's target band since Q4 2015
- ❑ 0.28 pc pts (or 37%) of the 0.8% rise in the CPI in Q3 came from a 3.3% increase in new dwelling purchase costs (would have been 6.5% but for the impact of government grants)
- ❑ 0.25 pc pts (33%) of the Q3 increase came from a 24.6% increase in petrol prices, 0.09 pc pts (12%) from increased prices for meals out and take-away foods, and 0.08 pc pts (11%) from supply-chain affected items such as furniture and cars
- ❑ The larger-than-expected rise in measures of 'underlying' inflation (which exclude these 'outliers') is partly due to an unusually small number of items experiencing price falls

Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, [Consumer Price Index, Australia](#). The December quarter (Q4) CPI will be released this coming Tuesday, 25th January.
[Return to "What's New"](#).

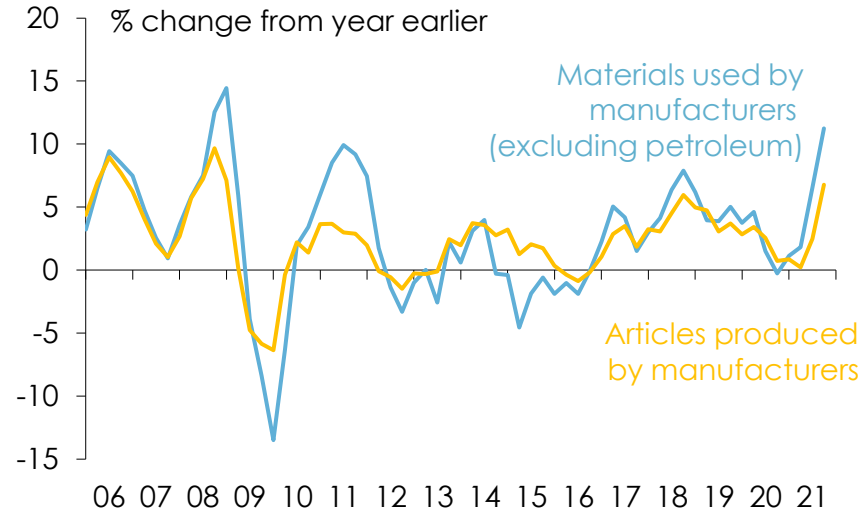
'Upstream' price pressures, which had been less apparent in Australia than elsewhere earlier this year, intensified during Q3 2021

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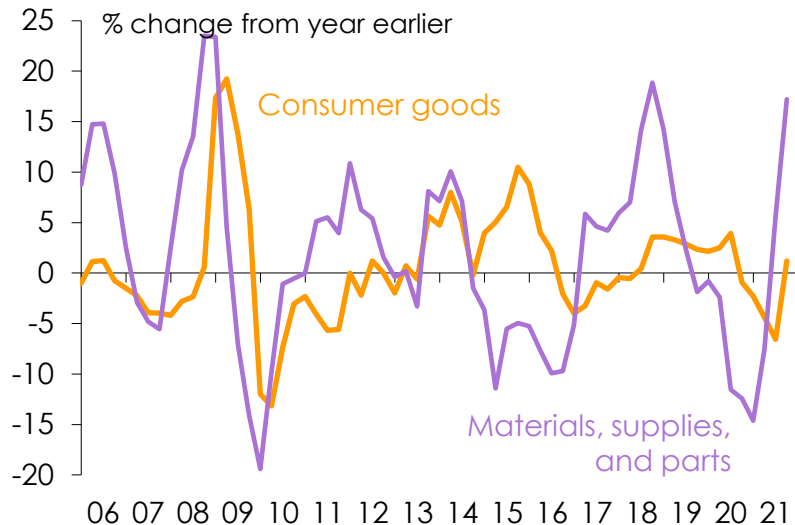
Producer price index



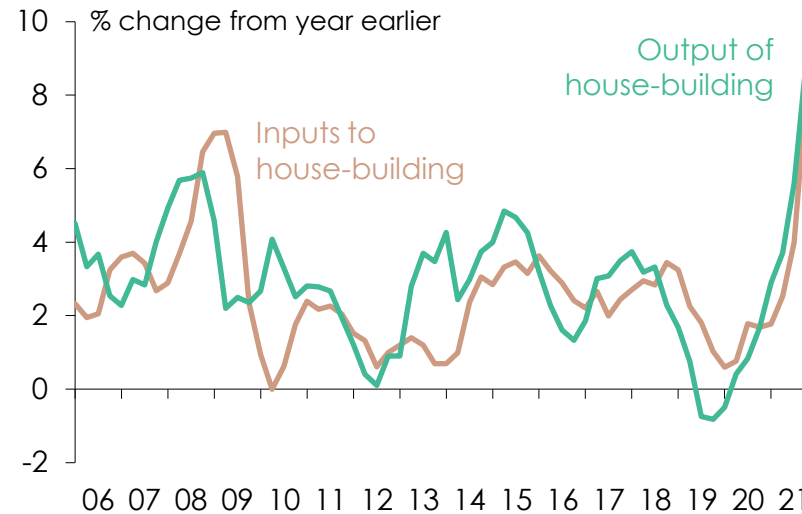
Manufacturing input & output prices



Imported consumer goods prices



Construction input & output prices



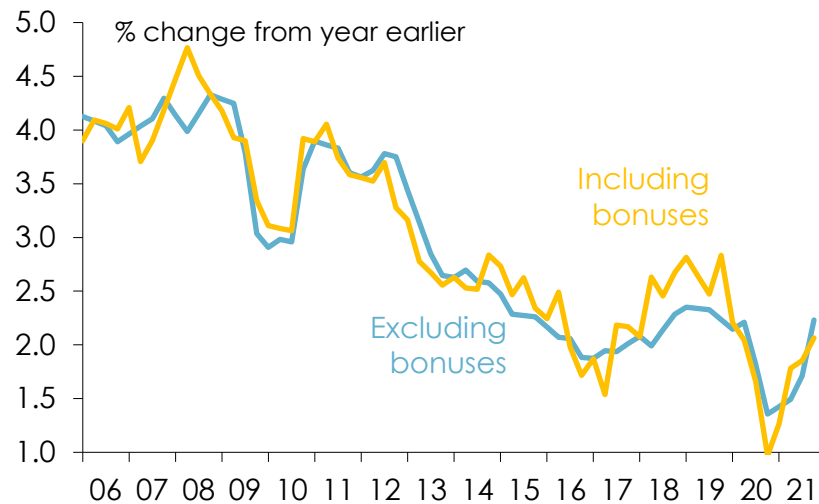
- ❑ Until the September quarter there had been very little evidence in Australia of the 'upstream' inflation pressure apparent in many other economies – with the exception of the construction sector
- ❑ However the producer price index (which in Australia includes a range of services sectors, but excludes exports) rose by 1.1% in Q3 – the largest increase in eight years
 - which after a 0.7% increase in Q2 pushed the annual PPI inflation rate to 2.9%, the highest since Q4 2011
 - the manufacturing sector contributed 36% Q3 PPI increase, and the construction sector a further 31%
 - sea freight transport services prices rose 43% in Q3 (and by 105% from Q3 last year) although this only accounted for 1½% of the increase in the overall PPI in Q3
- ❑ The import price index rose 5.4% in Q3, the largest increase since Q3 2013
 - a 57% increase in prices of imported petroleum products was the largest contributor
 - but imported consumer goods prices also rose 4.1%, the largest in eight years

Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), September quarter 2021.
[Return to "What's New"](#).

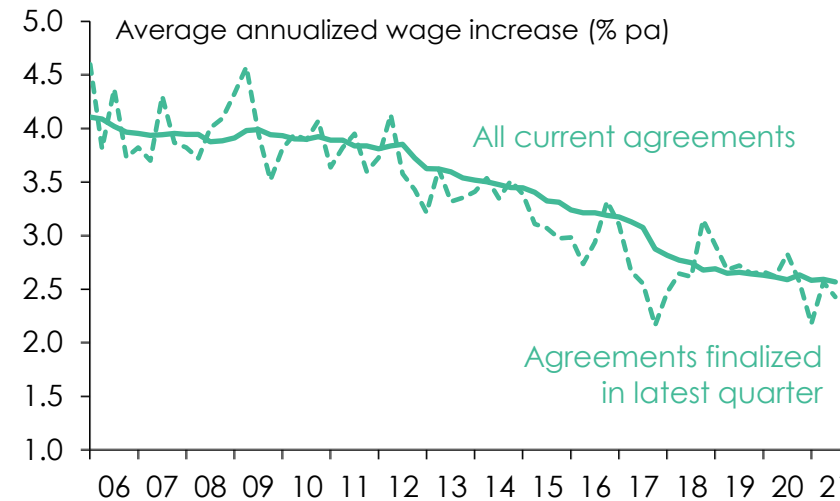
Wages growth is (as of Q3) back to where it had been pre-Covid, but is still well below what the RBA regards as consistent with its 2-3% target

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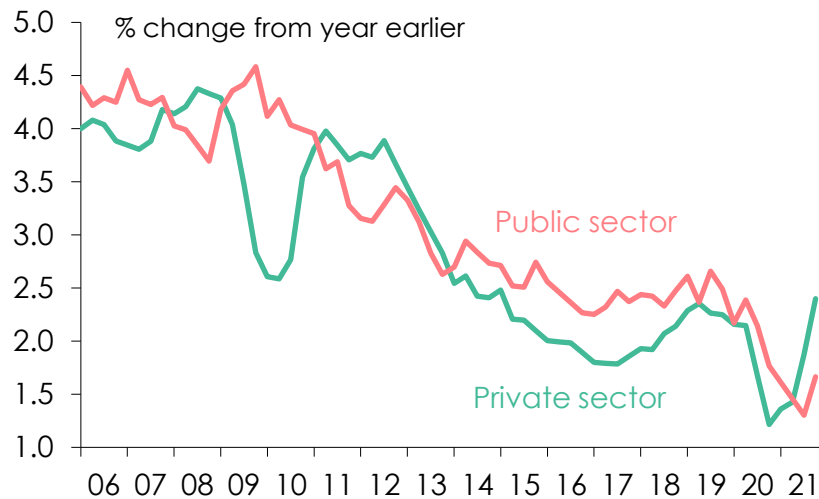
Wage price index – all sectors



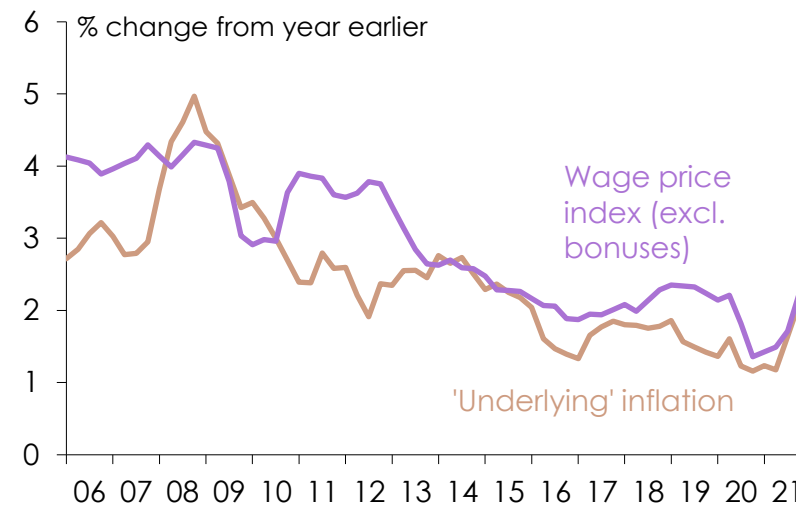
Enterprise bargaining agreements



WPI – private vs public sectors



WPI and 'underlying' CPI inflation

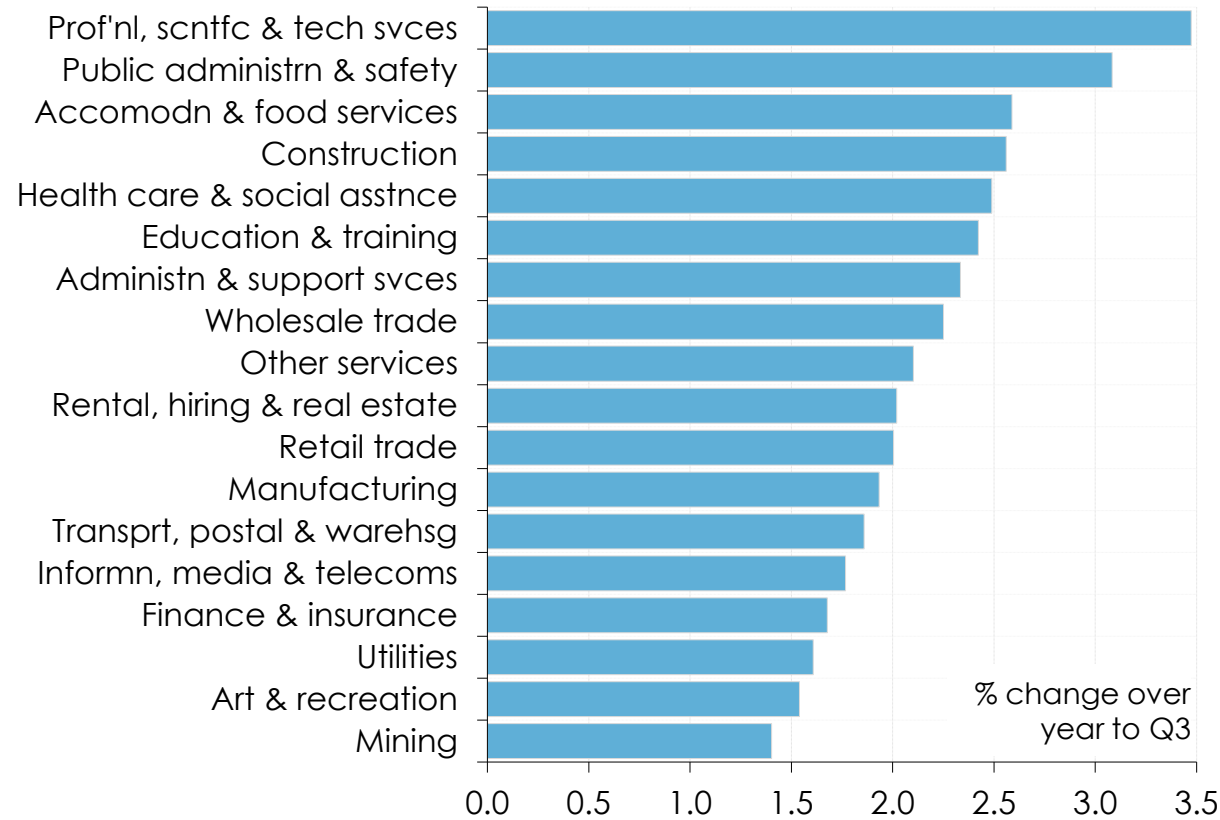


- The wage price index (excl. bonuses) rose 0.6% in Q3, up from 0.4% in Q2 but in line with Q1 and Q4 last year, pushing the annual rate back up to 2.2%, where it was in Q1 last year
- In other words, wages growth has now reverted to its (fairly weak) pre-Covid trend
 - it remains well short of the “3 point something percent” which RBA Governor Philip Lowe last month again identified as “likely will need to be growing at 3 point something per cent to sustain inflation around the middle of the target band”
- The main contributors to the Q3 increase were an end to ‘wage freezes’ in parts of the public sector, pay rises averaging more than 1% in a small number of sectors experiencing labour shortages, and partial implementation of the most recent increase in the minimum wage awarded by the Fair Work Commission in June

The slight pick up in wages growth in Q3 largely reflects individual agreements in a few sectors, plus an end to public sector ‘wage freezes’

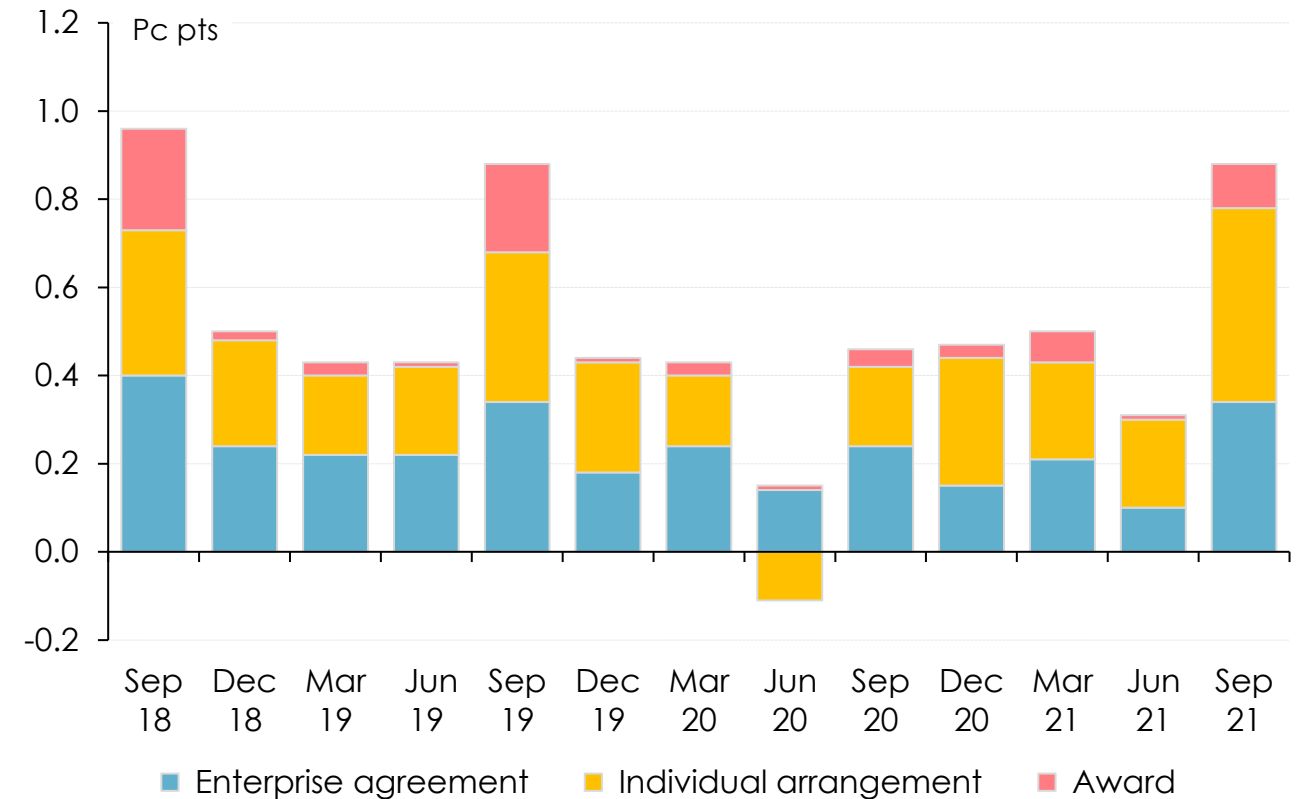
THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

Increase in wage price index over year to Q3 by sector



☐ To date, wages growth has only picked up in a few sectors – professional, scientific & technical services, and public administration & defence

Contribution to quarterly changes in wage price index, by method of setting pay



☐ Pay settings by individual arrangements (which are more sensitive to labour market conditions) made a larger contribution to wages growth in Q3

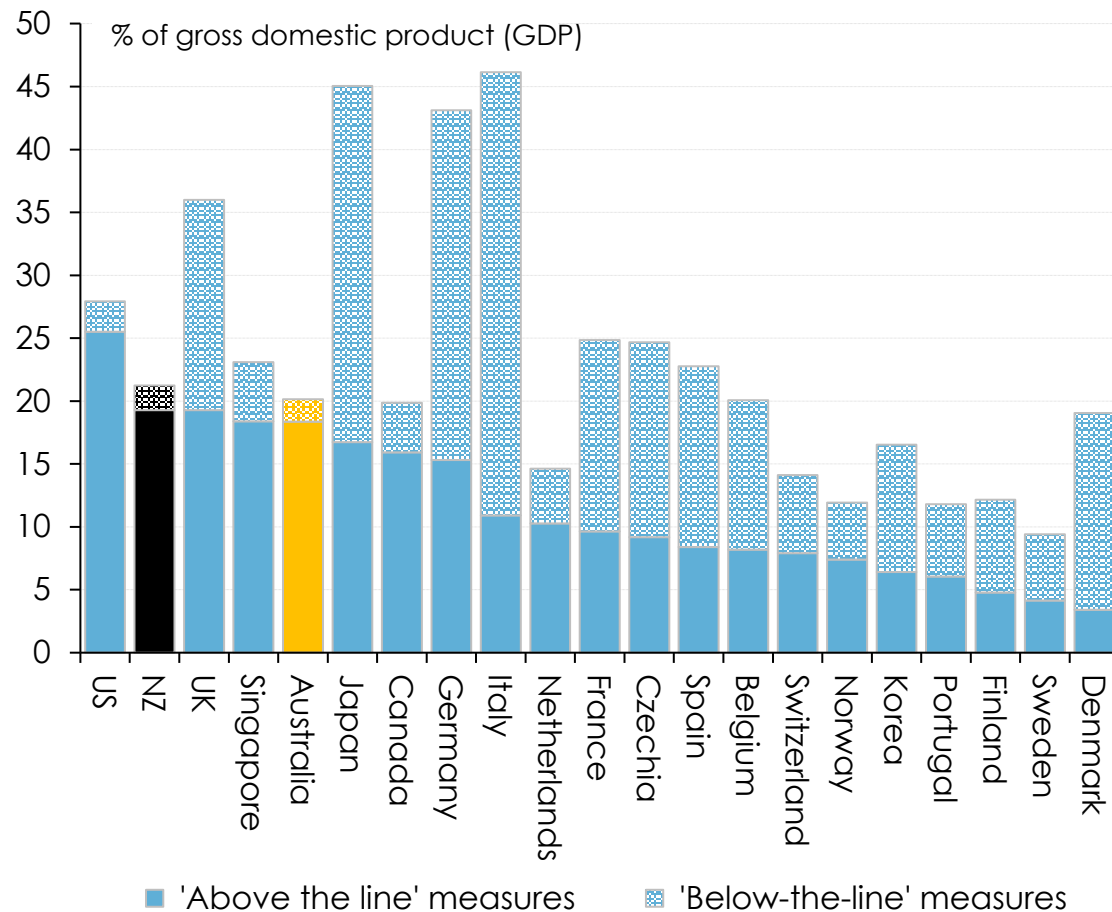
Sources: ABS, [Wage Price Index, Australia](#), September 2021; December quarter WPI data will be released on 22nd February 2022. [Return to "What's New"](#).

Fiscal policy

The Government's fiscal policy response to Covid-19 now exceeds 18% of GDP – compared with the 'advanced' economy average of 11¼%

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Fiscal policy responses to Covid-19 – selected 'advanced' economies



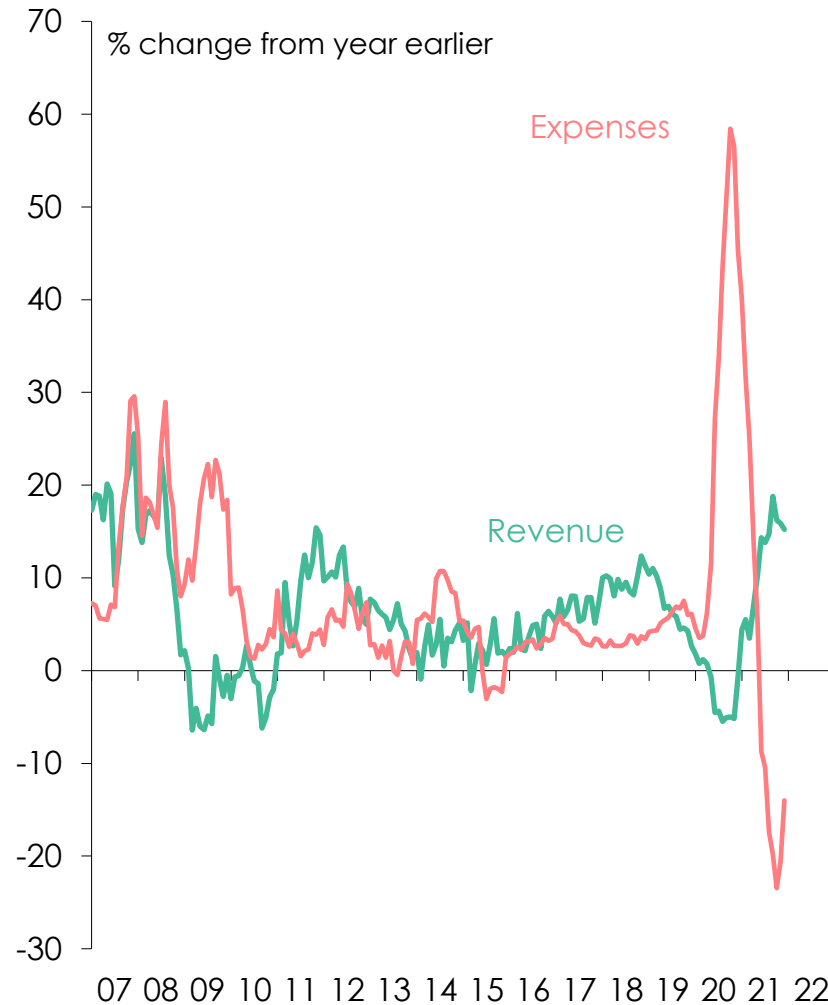
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27th September 2021. Source: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), October 2021. [Return to "What's New"](#).

- ❑ Policy measures announced by the Australian and state/territory governments in response to Covid-19 (up to end-September this year) have been equivalent to more than 18% of GDP – the fifth highest of any 'advanced' economy, according to IMF estimates released in October
 - this week's Mid-Year Economic & Fiscal Outlook put total federal government measures since the onset of the pandemic at \$337bn (16.3% of GDP)
- ❑ In response to the protracted lockdowns in NSW, Victoria and the ACT (and shorter ones in the NT, Queensland, South Australia and Tasmania), the Federal Government paid out \$13.1bn to 2.4mn people displaced from employment by restrictions, or forced into quarantine or self-isolation
 - of which \$7.48bn was paid to people in NSW, \$4.45bn to people in Victoria, and \$345mn to people in the ACT
 - state and territory governments also made payments to businesses and individuals affected by health restrictions
- ❑ These payments have now largely ceased
 - only \$390mn was paid out in November, cf. \$3.2bn in October, \$4.4bn in September and \$5.1bn in July-August

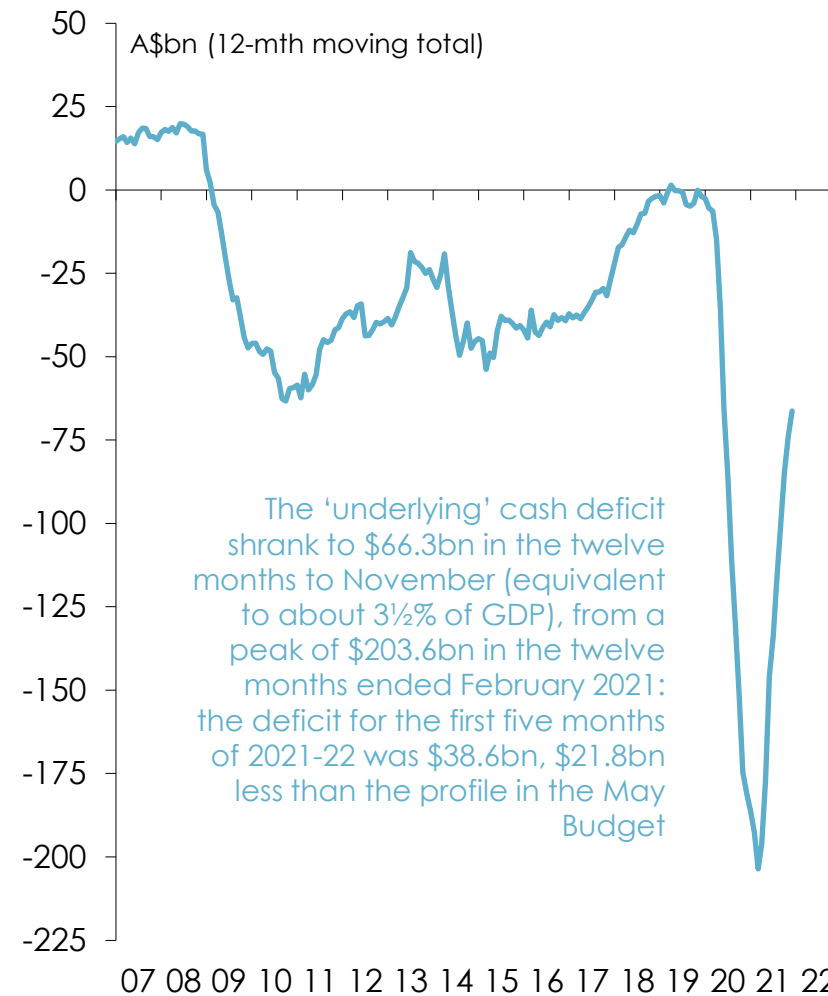
The budget deficit is declining rapidly despite the additional payments to people affected by lockdowns, thanks to buoyant tax revenues

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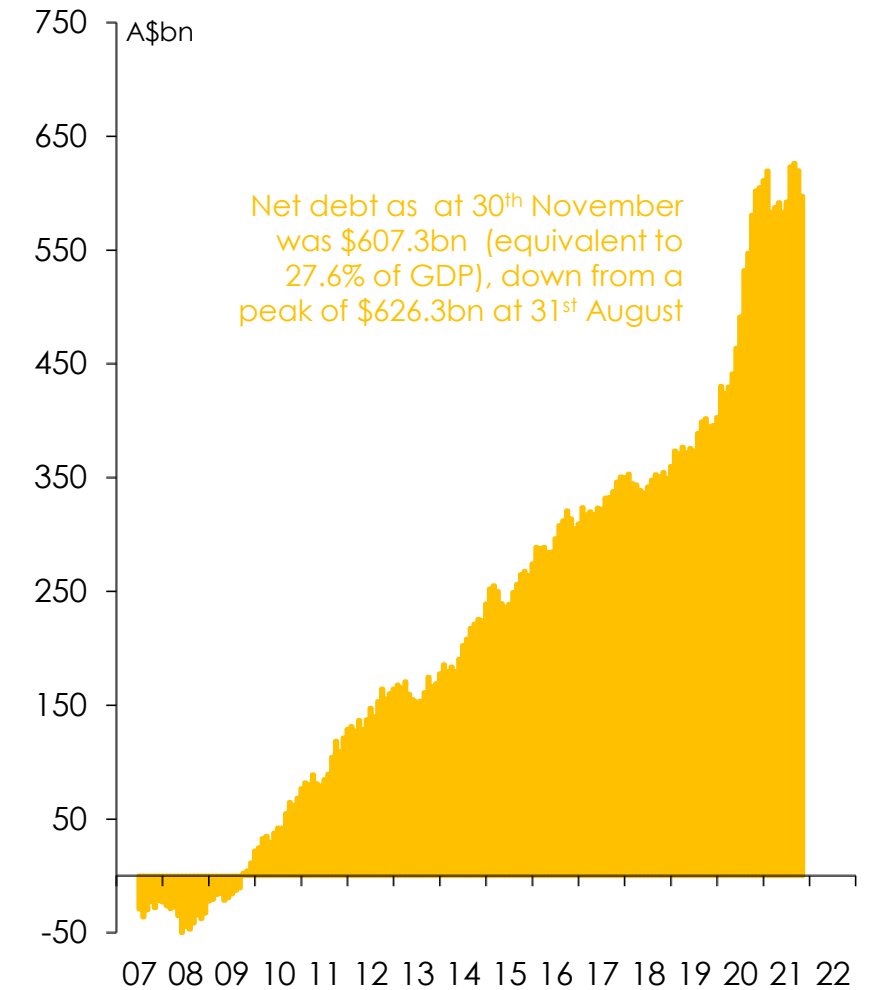
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



Australian Government net debt



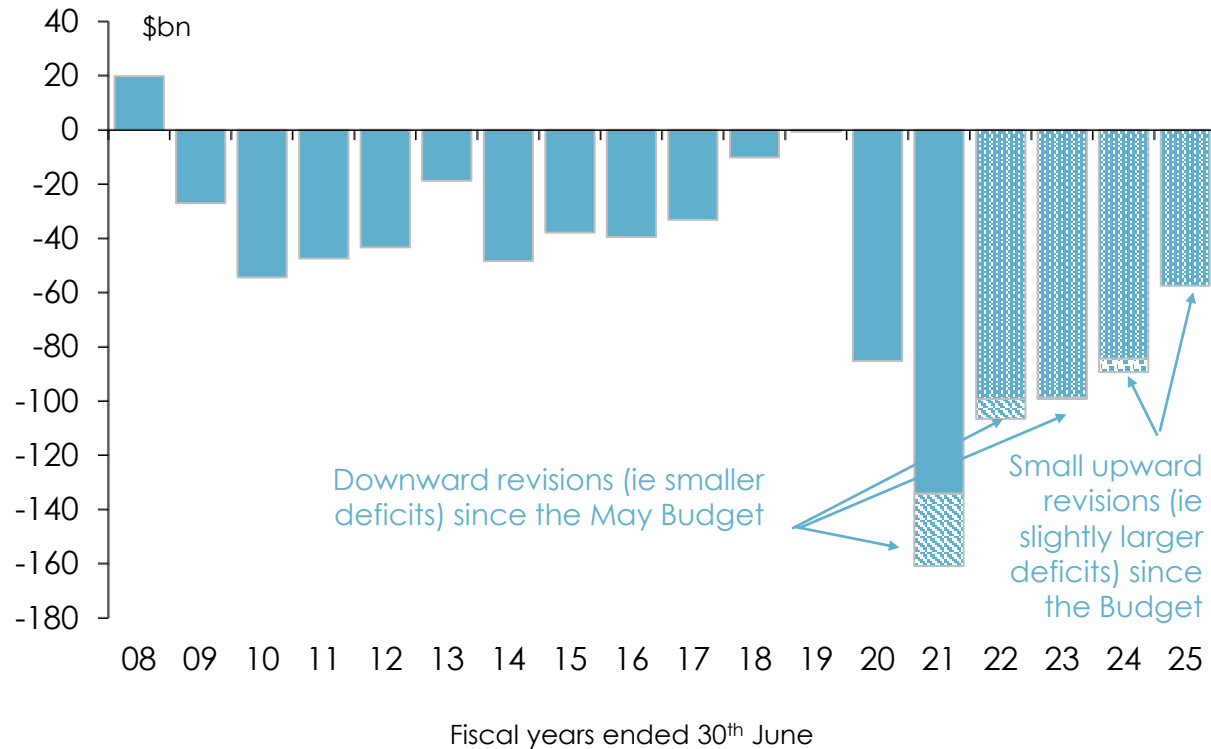
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, loans and other borrowing) minus cash and deposits, advances paid, and (interest-bearing) loans, placements and investments. Source: Australian Government, [Final Budget Outcome 2020-21](#); Department of Finance, [Commonwealth Monthly Financial Statements](#). [Return to "What's New"](#).

This 2021-22 Mid-Year Economic & Fiscal Outlook lowered the forecast deficits for 2021-22 and 2022-23 but raised them for 2023-24 and 2024-25

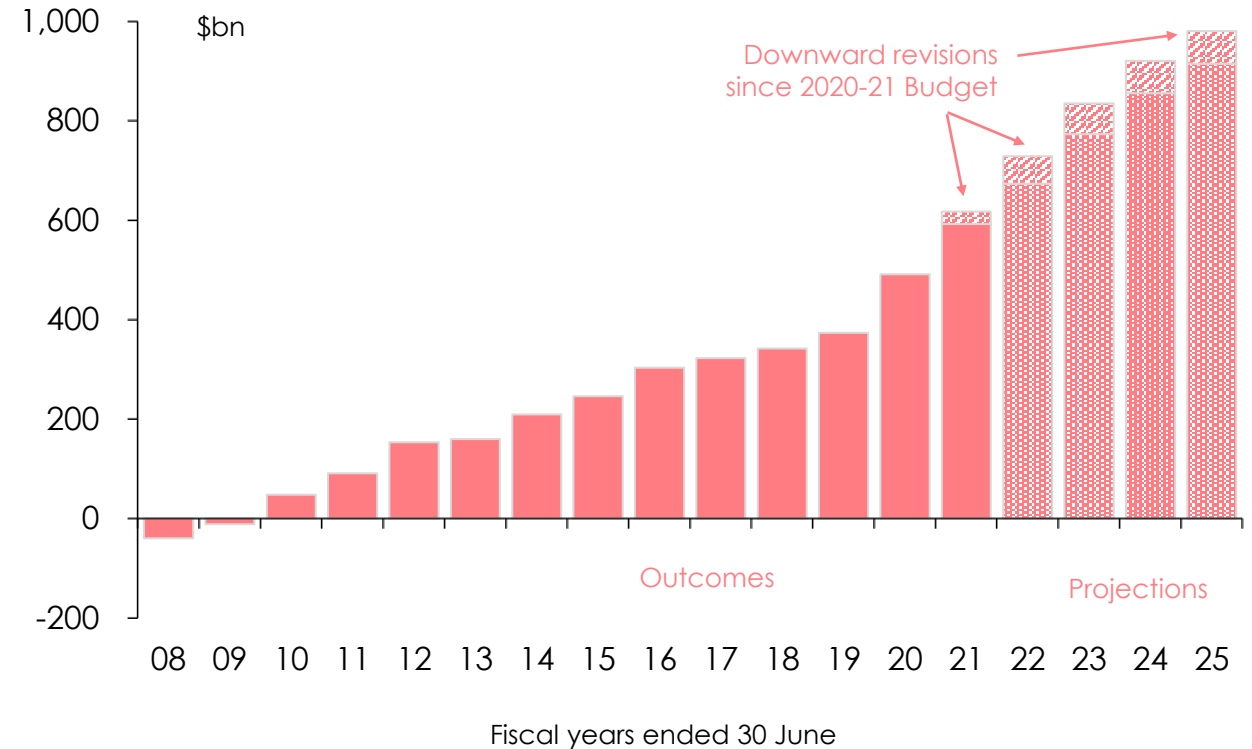
THE AUSTRALIAN ECONOMY THIS WEEK – 21st January 2022

2021-22 MYEFO forward estimates of the 'underlying' cash balance and net debt

'Underlying' cash balance



Net debt



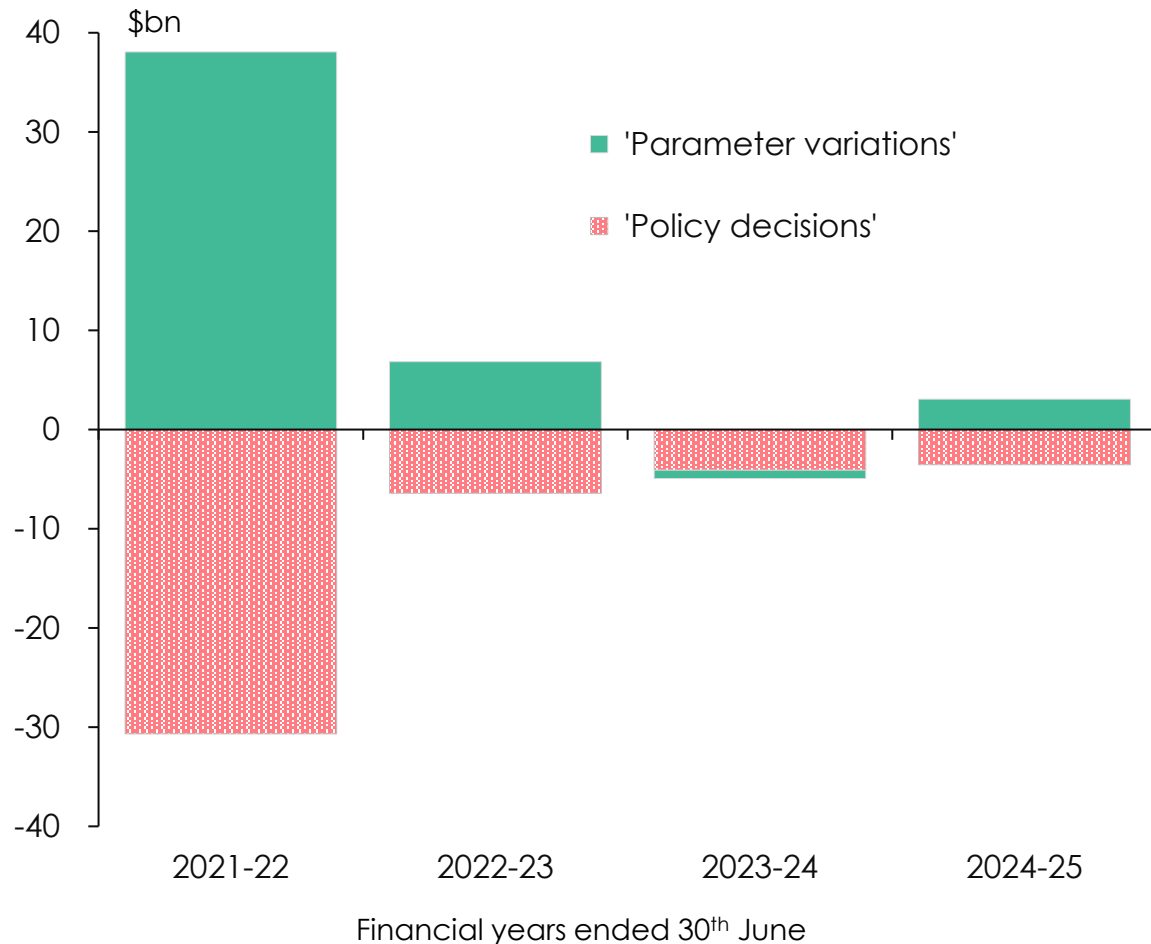
❑ The deficit for 2020-21 of \$134.2bn (6.5% of GDP) was \$27bn less than had been forecast in the May Budget – the deficits for 2021-22 and 2022-23 were revised down by \$7.4bn and \$0.4bn, respectively, while the deficits for 2023-24 and 2024-25 were revised up by \$5bn and \$0.5bn

❑ Net debt as at 30th June 2021 was \$25bn less than had been forecast in May – and the forecast for net debt as at 30th June 2025 has been revised down by \$66bn, to \$915bn (37.4% of GDP)

The Government spent almost all of the \$47bn net 'windfall gain' to the budget since May, leaving a net improvement in the deficit of just \$2¼bn

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Sources of the changes in forward estimates of the 'underlying cash balance' between the 2021-22 Budget and the 2021-22 MYEFO



- 'Parameter variations' – revisions to projections of receipts and payments due to changes in economic and other forecasting assumptions – since the May Budget improved the projected budget 'bottom line' by a total of \$47bn over the four years to 2024-25
 - upward revisions to forward estimates of receipts totalling \$106bn (mostly higher personal and company income tax collections) were partly offset by upward revisions to forward estimates of payments totalling \$59bn (of which more than half, \$26bn, was due to increased National Disability Insurance Scheme costs)
- However 'policy decisions' taken since the Budget absorbed \$45bn of those 'windfall gains'
 - spending decisions added \$48bn to forecast cash deficits – of which \$20bn was for payments to individuals and businesses affected by recent lockdowns – while revenue decisions reduced forecast deficits by \$3bn
 - 'policy decisions' also include \$16bn of spending decisions 'taken but not yet announced', which includes 'commercial-in-confidence' vaccine deals but also suggests a significant 'war-chest' for pre-election announcements
- As a result, the net improvement in the budget deficit over the four years to 2024-25 is a mere \$2.3bn

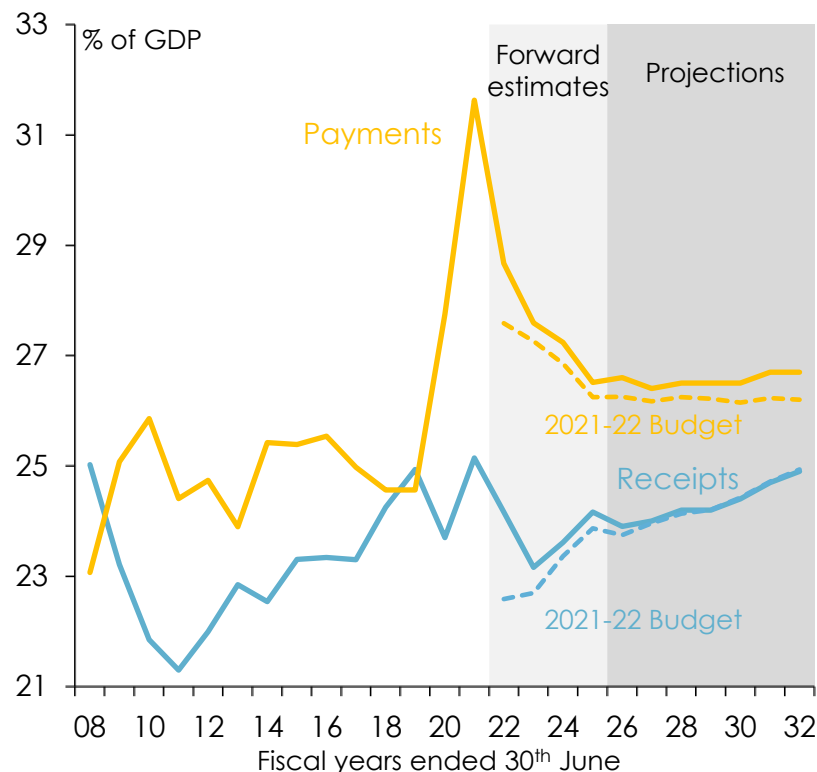
Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

Longer-term MYEFO projections suggest higher spending and revenues with surpluses nowhere in sight for as long as revenues are arbitrarily 'capped'

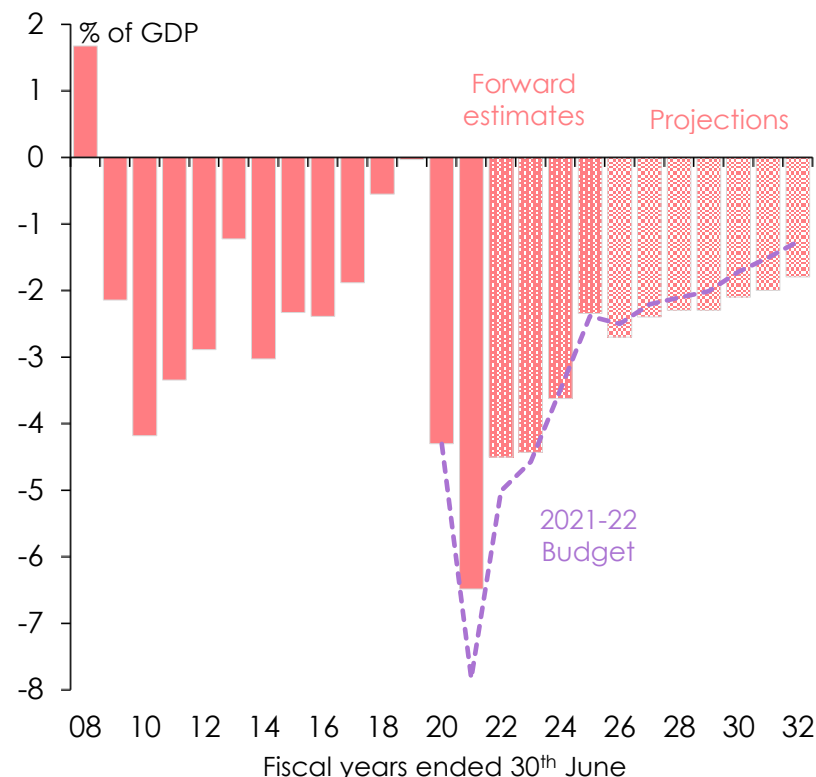
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2021-22 Budget and MYEFO Forward estimates and medium-term projections compared

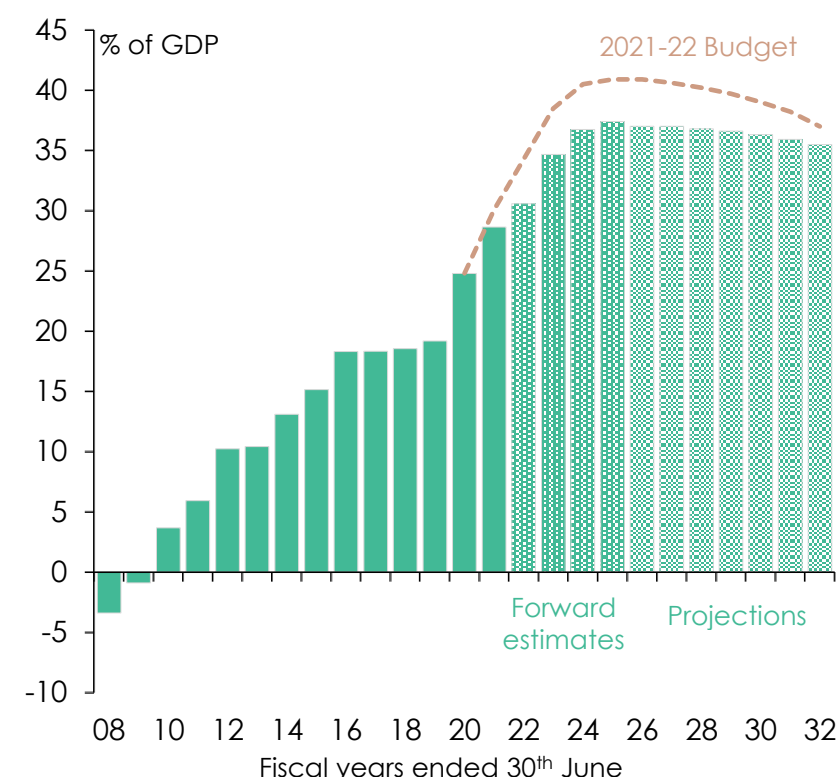
Receipts & payments



'Underlying' cash deficit



Net debt



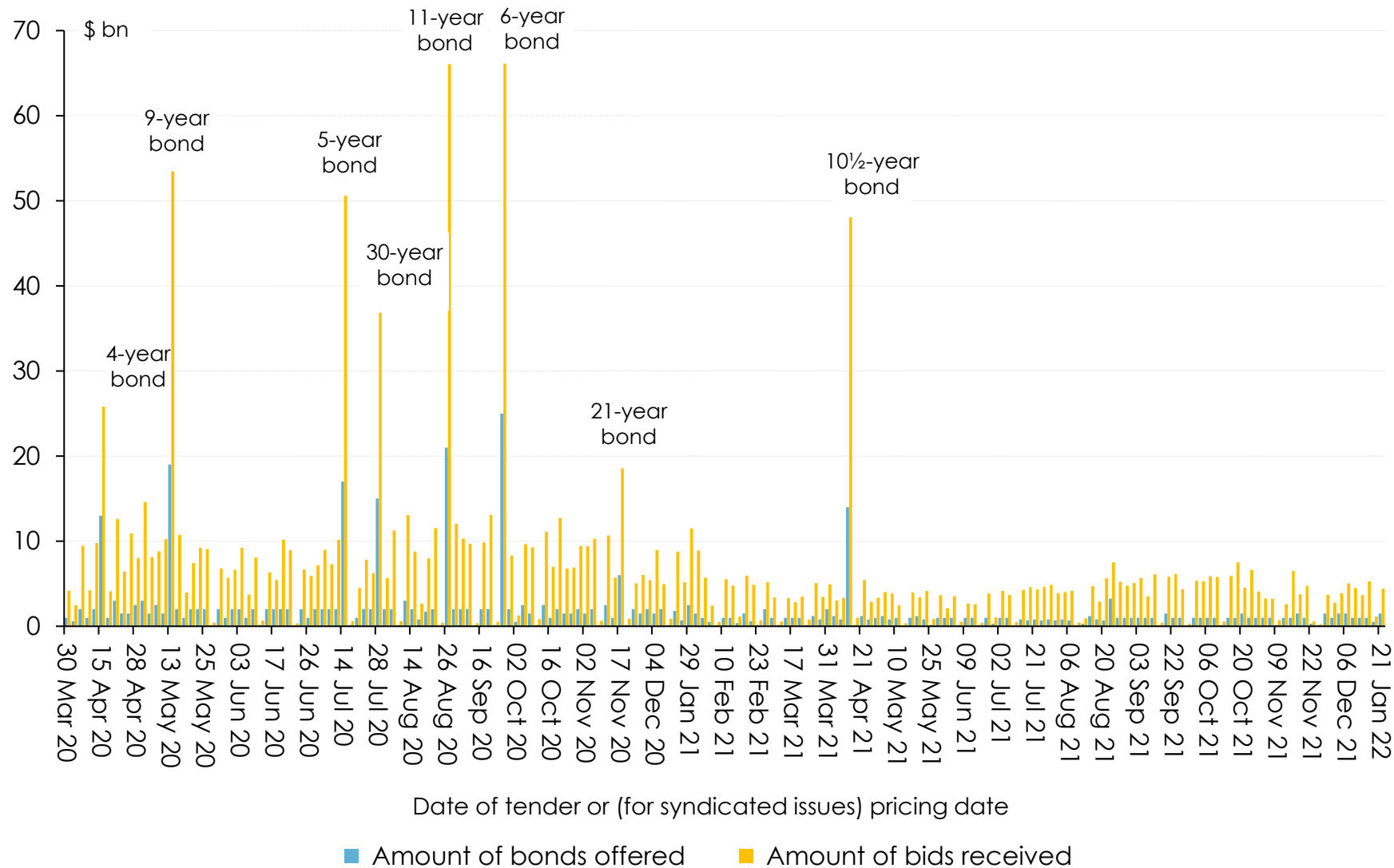
- ❑ MYEFO projects higher spending and revenues over the medium term than in the May Budget (and in the case of spending, significantly higher than in the pre-Covid era) – leading to persistent budget deficits (higher over the medium term than projected in the May Budget) – unless the quite arbitrary 23.9% of GDP 'cap' on tax revenues is amended or abandoned
- ❑ While interest rates remain low by historical standards the government can 'afford' to run deficits averaging 2¼% of GDP – but at the expense of not building 'buffers' to use in response to the next 'shock', whenever it comes

Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16th December 2021. [Return to "What's New"](#).

The Government continues to find a ready appetite for its bond issuance – in the past two weeks it has received bids of \$14½bn for \$4bn of bonds

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Australian government bond issuance since March 2020



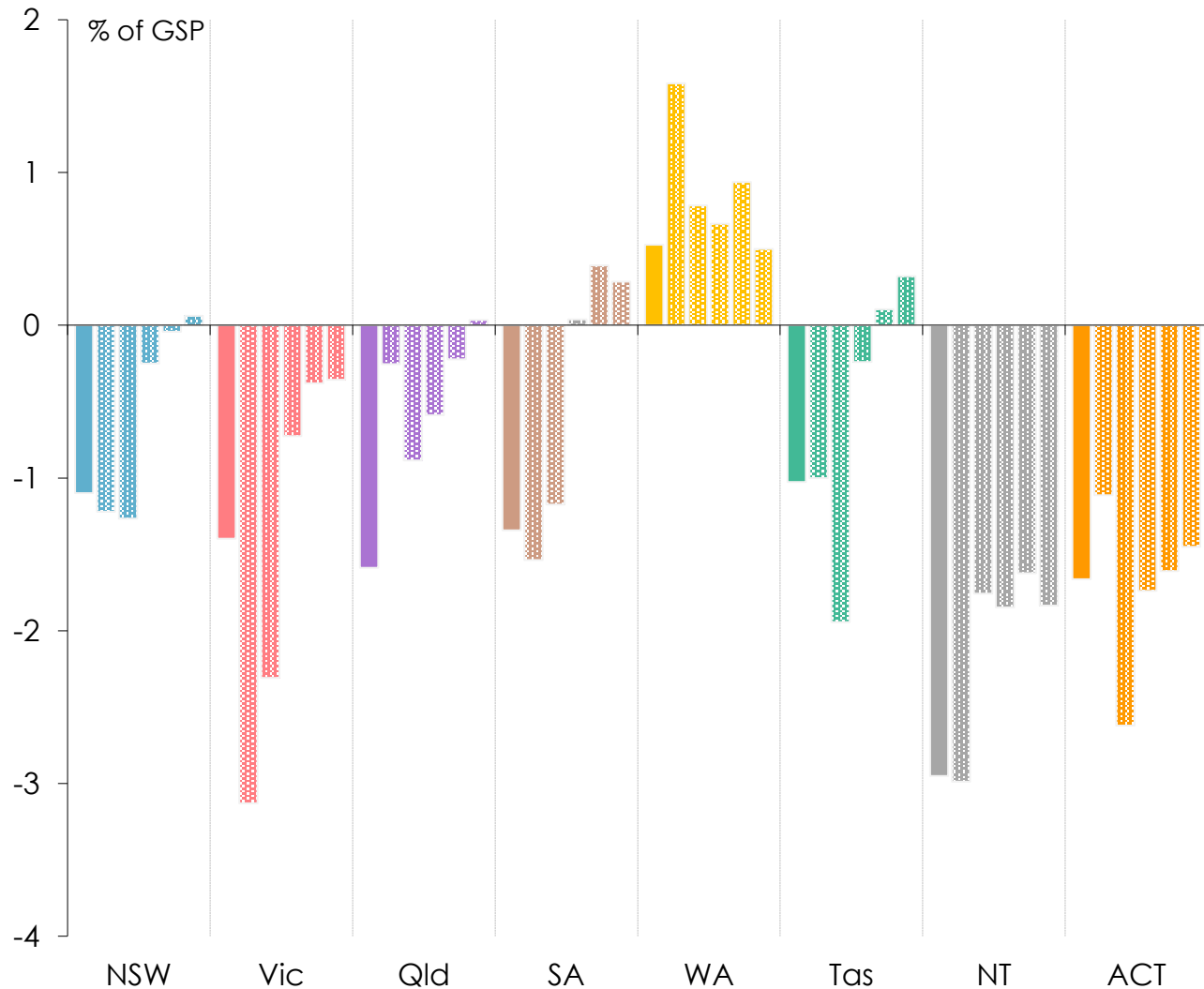
- ❑ On 7th January AOFM indicated it would issue about \$61bn of Treasury bonds, and \$5-5½bn of indexed bonds, over the six months to June
- ❑ Since resuming auctions on 12th January, the AOFM has sold \$4bn of bonds (\$1.5bn of April 2025s, \$1bn of November 2025s, \$1bn of November 2032s and \$500mn of June 2035s)
 - for which it received bids totalling \$14.5bn
- ❑ So far this financial year, the AOFM has received bids totalling almost \$224bn for the \$51.4bn of bonds it has offered for sale – a ‘coverage ratio’ of 4.4 times, cf. 3¾ times during the 2020-21 financial year
- ❑ Since 30th March 2020, the Australian Office of Financial Management has issued \$348.2bn of Treasury bonds – based on the volume of bids received it could have borrowed \$1.312 trn with yields at most 4 bp above the highest yields actually accepted

Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

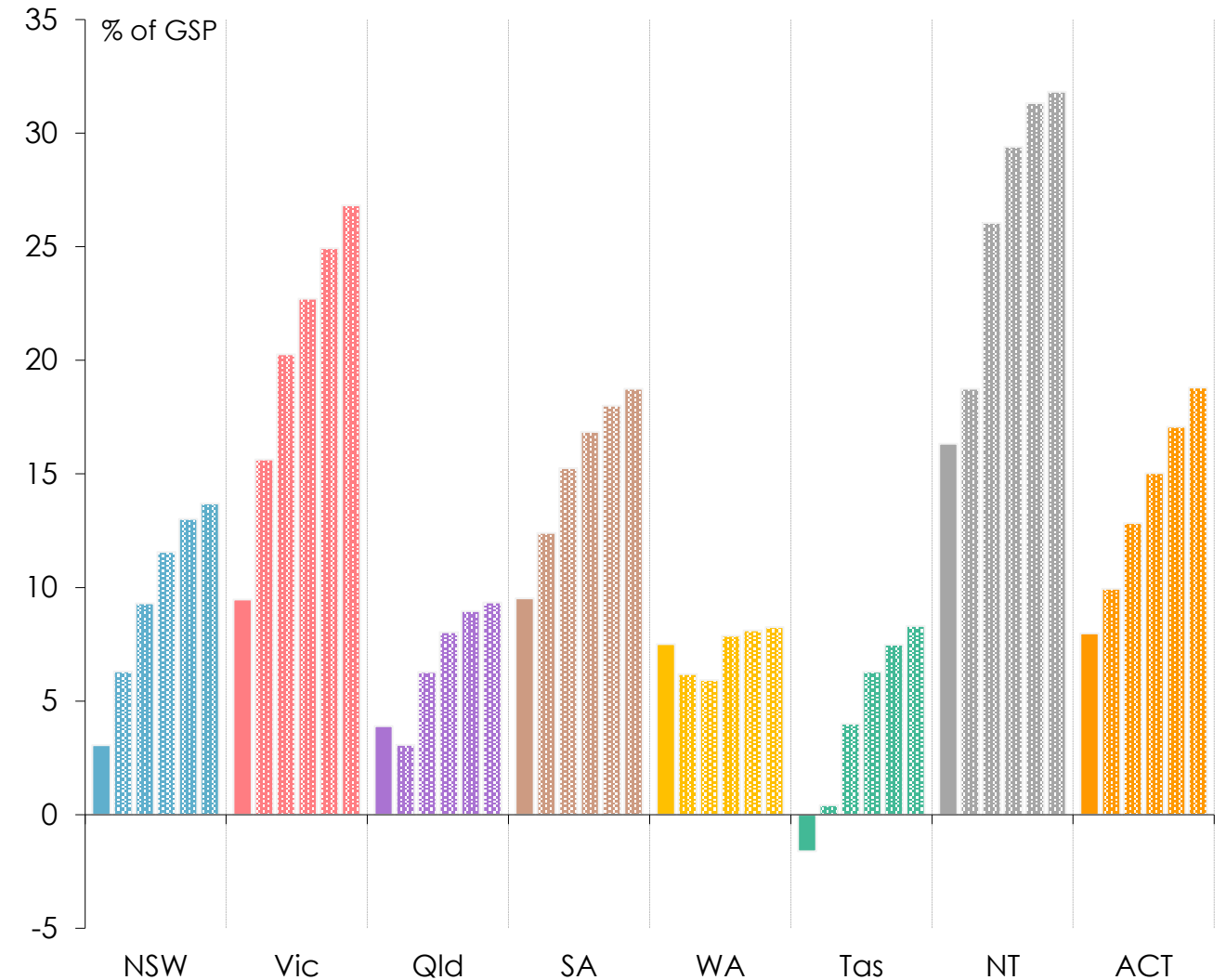
Some states and territories – especially Victoria and the Northern Territory – also have significant budgetary challenges ahead of them

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States and territories – ‘net operating balances’



States and territories – net debt



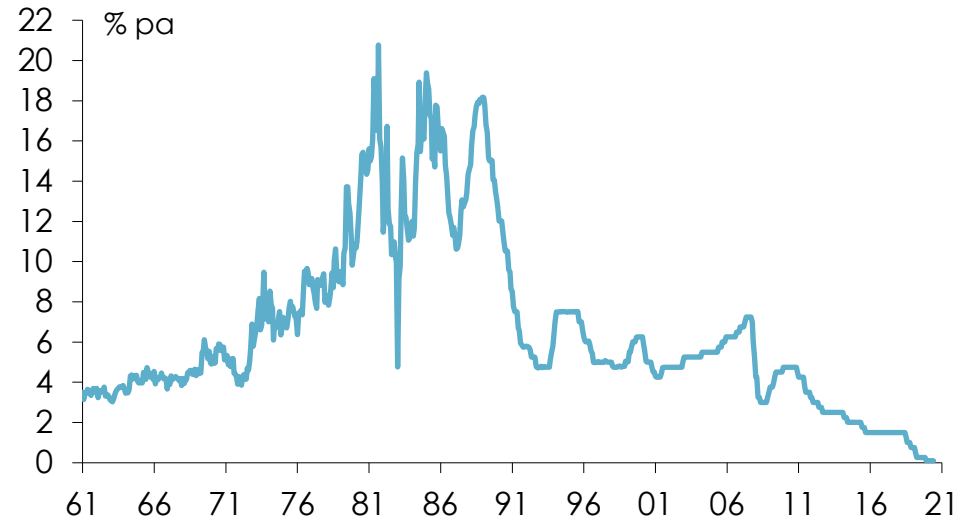
Note: Estimates are for the ‘general government’ sector, ie excluding GBEs, etc. ‘Net operating balance’ is the difference between ‘operating expenses’ (ie excluding net purchases or leases of non-financial assets). Estimates of nominal gross state product (GSP) for states and territories other than NSW and Victoria are derived from State or Treasury estimates of real GSP growth combined with Federal Treasury estimates of the (national) GDP price deflator. Sources: State and Territory 2021-22 Budget Papers.

Monetary policy and the RBA

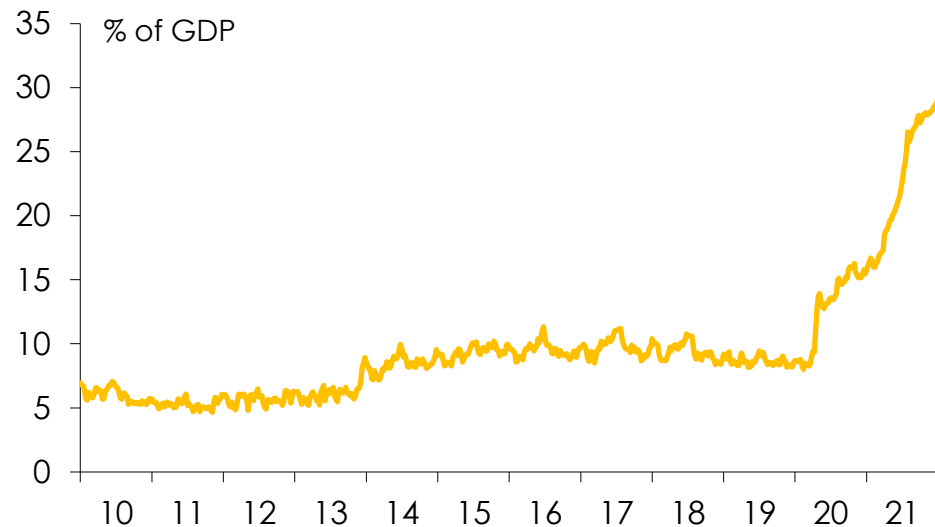
The RBA left rates on hold at its last meeting for 2021, as expected, and for the first time didn't nominate a date for when it would raise the cash rate

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Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



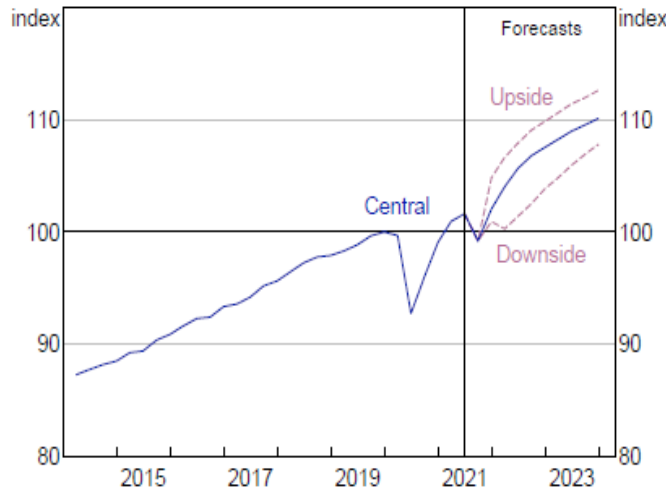
- ❑ The RBA left the cash rate at 0.10% and maintained its bond purchase program at \$4bn per week until “at least mid-February 2022”, at its final Board meeting for 2021
- ❑ In his [post-meeting statement](#) Governor Phillip Lowe expressed confidence that the ‘omicron strain’ was “not expected to derail the recovery” from recent lockdowns, with the economy “expected to return to its pre-delta path in the first half of 2022”
- ❑ Governor Lowe noted that inflation had “only returned to the relatively low rates prevailing before the pandemic” and that the further pick-up that was expected would be “only gradual”, with the mid-point of the 2-3% target band not being reached until 2023
- ❑ The Board will consider the future of its bond purchase program at its next meeting on 1st February
 - Its decision on whether to continue the program will be guided by “the actions of other central banks”, “how the Australian bond market is functioning”, and “most importantly, actual and expected progress towards the goals of full employment and inflation consistent with the target”
 - which would suggest that the Board is likely to terminate the program then
- ❑ For the first time since last February, the post-meeting statement did *not* put a date on when the RBA might increase the cash rate, instead merely saying that it “is likely to take some time” for the criteria for raising rates to be met, and “the Board is prepared to be patient”
 - however markets are ‘pricing in’ two rate hikes in 2022 ([slide 80](#))

Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1. [Return to "What's New"](#).

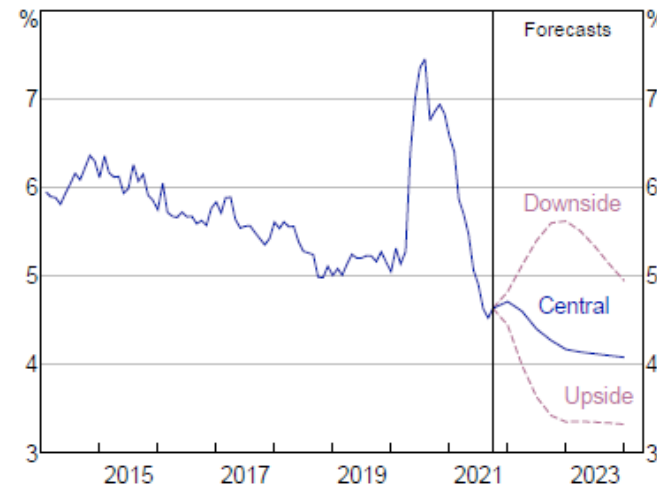
After revising up its inflation forecasts the RBA concedes an increase in the cash rate “could be warranted” in 2023, but emphatically not in 2022

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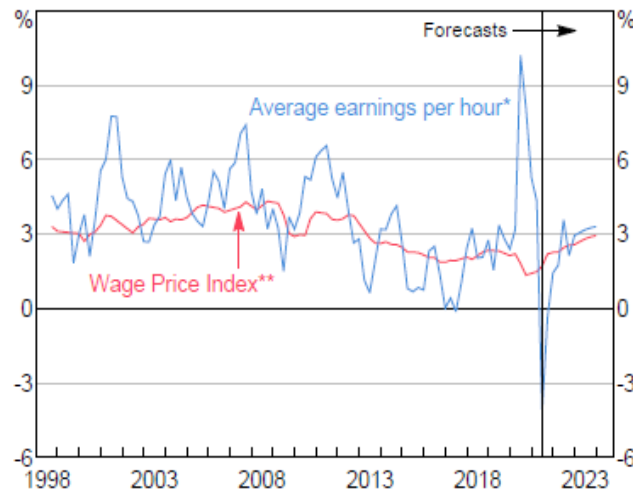
GDP



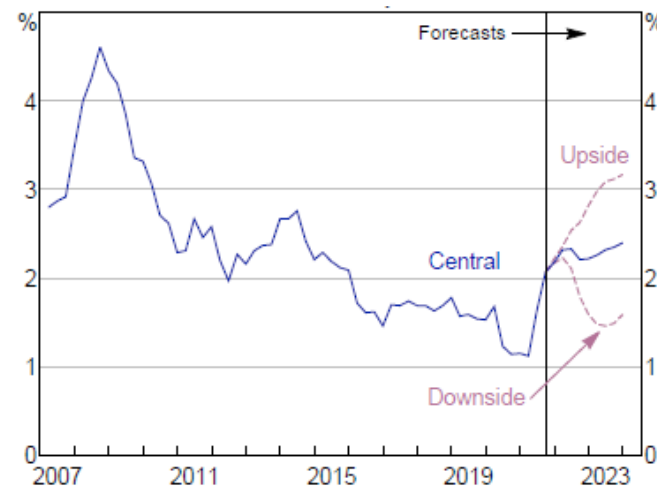
Unemployment



Wages



'Underlying' inflation



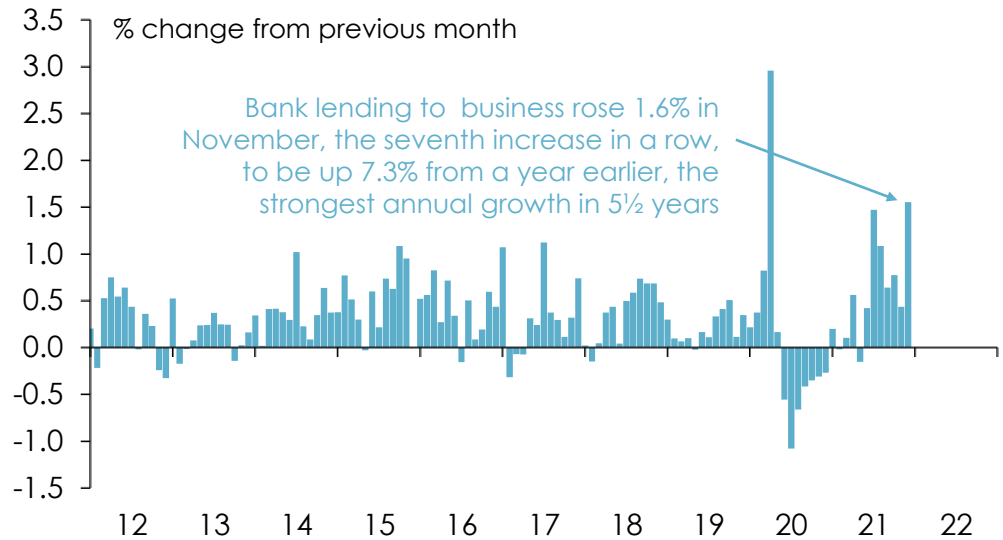
- ❑ In its November [Statement on Monetary Policy](#) RBA foreshadowed a “rapid bounce back” in Q4 and in Q1 next year (after the contraction in Q3) such that GDP grows by 5½% over the year to Q4 2022 before slowing to 2½% through 2023
- ❑ In this ‘central’ scenario the RBA expects the unemployment rate to fall from 4¾% in Q4 2021 to 4¼% by Q4 2022, and the more slowly to “just above 4% by the end of 2023” ...
- ❑ ... in which case wage inflation is expected to pick up to “above 2% by the end of 2021” and “to be around 3% by the end of 2023”
- ❑ ‘Underlying’ inflation is now expected to be “around 2¼ for much of the forecast period”, rising to “around 2½% by the end of 2023” ...
- ❑ ... which “could be consistent with the first increase in the cash rate being in 2024”
- ❑ In the SoMP the RBA also presents an ‘upside’ scenario “driven by stronger wealth effects [on household spending] and reduced uncertainty related to positive health outcomes” – with unemployment falling to 3¼% and inflation rising above 3% by end-2024” – in which case “an increase in the cash rate in 2023 could be warranted”
- ❑ However “the latest data and forecasts do not warrant an increase in the cash rate in 2022” in the RBA Board’s view

Source: Reserve Bank of Australia, [Statement on Monetary Policy](#), 5th November 2021. The RBA's next set of forecasts will be published on 4th February 2022. [Return to "What's New"](#).

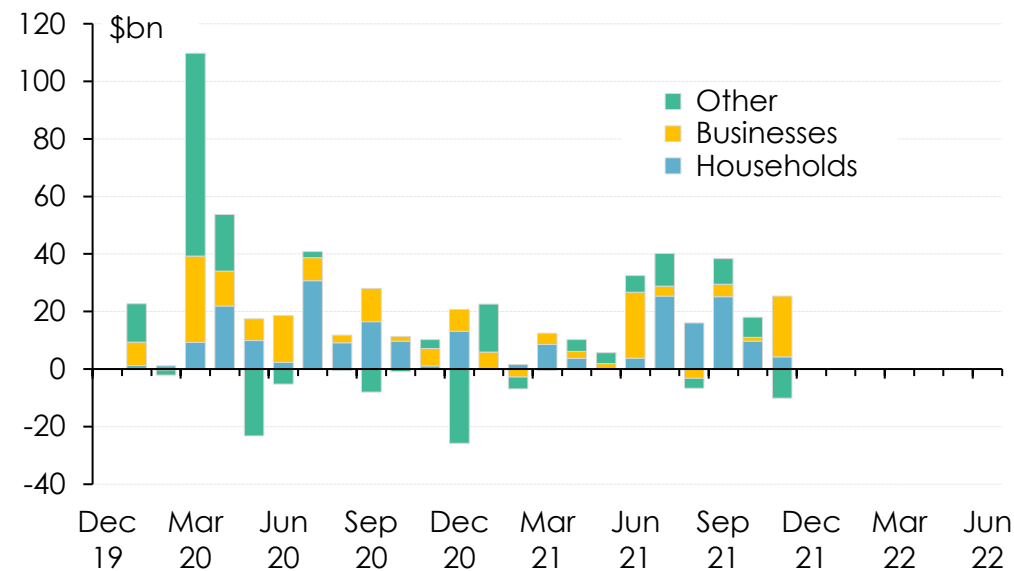
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

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Business credit outstanding



Monthly change in bank deposits



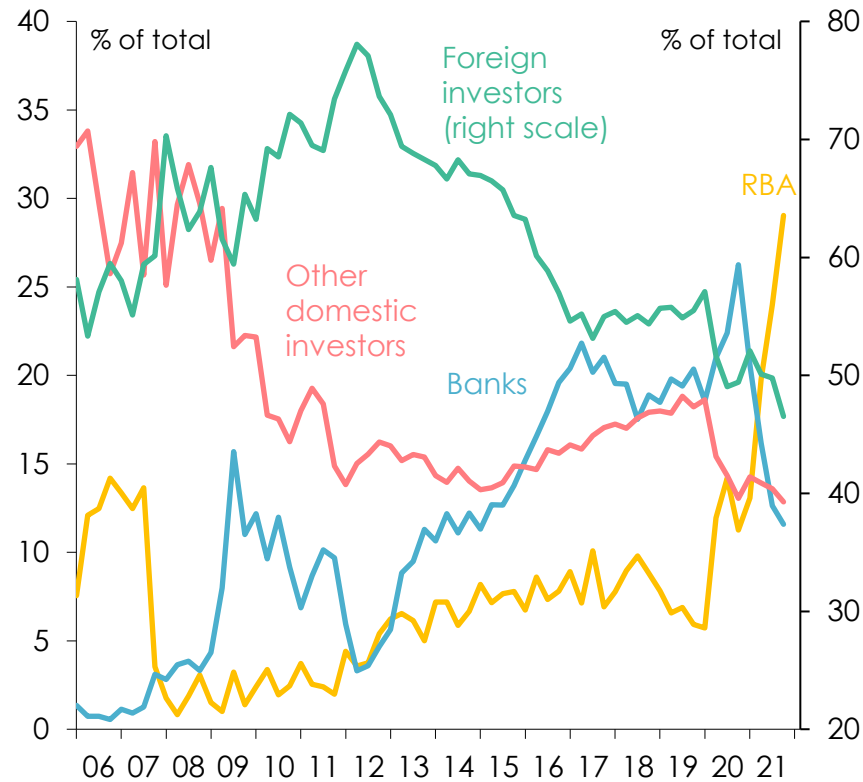
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during the most recent lockdowns
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who requested it
 - in May last year, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments
- ❑ Bank deposits have swelled by \$457bn (21½%) since February 2019 as customers have ‘parked’ precautionary loan drawings, additional savings and withdrawals from superannuation funds
 - almost all of this has gone into transaction deposits which don’t pay interest – so banks haven’t drawn as much as might otherwise have been expected from the RBA’s Term Funding Facility
- ❑ Household deposits have risen by \$222bn (22½%) since February 2019 – including by \$81bn between July and November most of which NSW and Victoria spent in lockdown – while business deposits have risen by \$164bn (27½%)

Sources: Reserve Bank of Australia; APRA. [Return to "What's New"](#).

The RBA has (indirectly) absorbed 70% of the increase in government debt since the end of 2019, foreign investors 24% and banks 7%

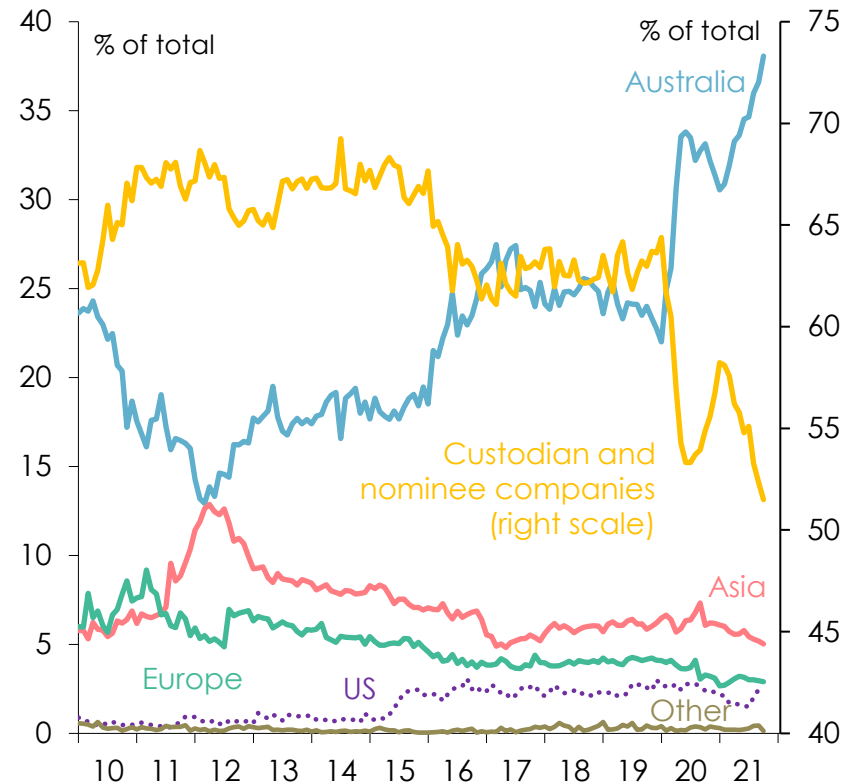
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Holders of Australian Government bonds



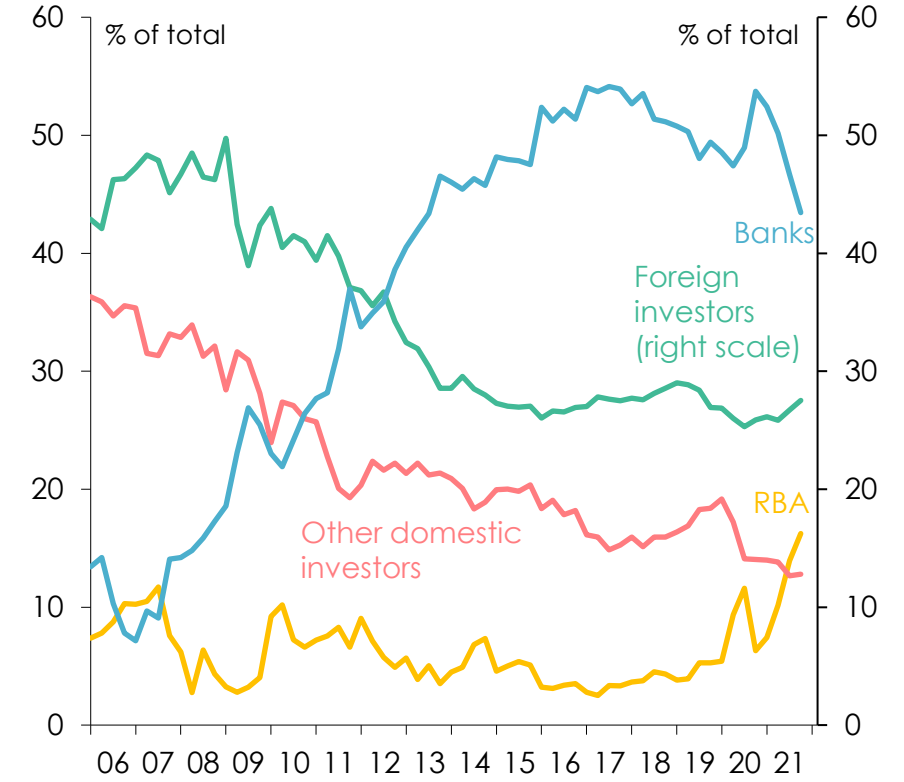
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds (including RBA) rose by \$53bn over the 12 months to September while identified foreign holdings fell \$8½bn – and unidentified holdings (which include many foreigners) fell by \$9bn

Holders of State and Territory Government bonds



State & Territory Gov't bonds on issue since the end of 2019, of which \$53bn have been absorbed by the RBA, \$41bn by banks and \$37bn by foreigners

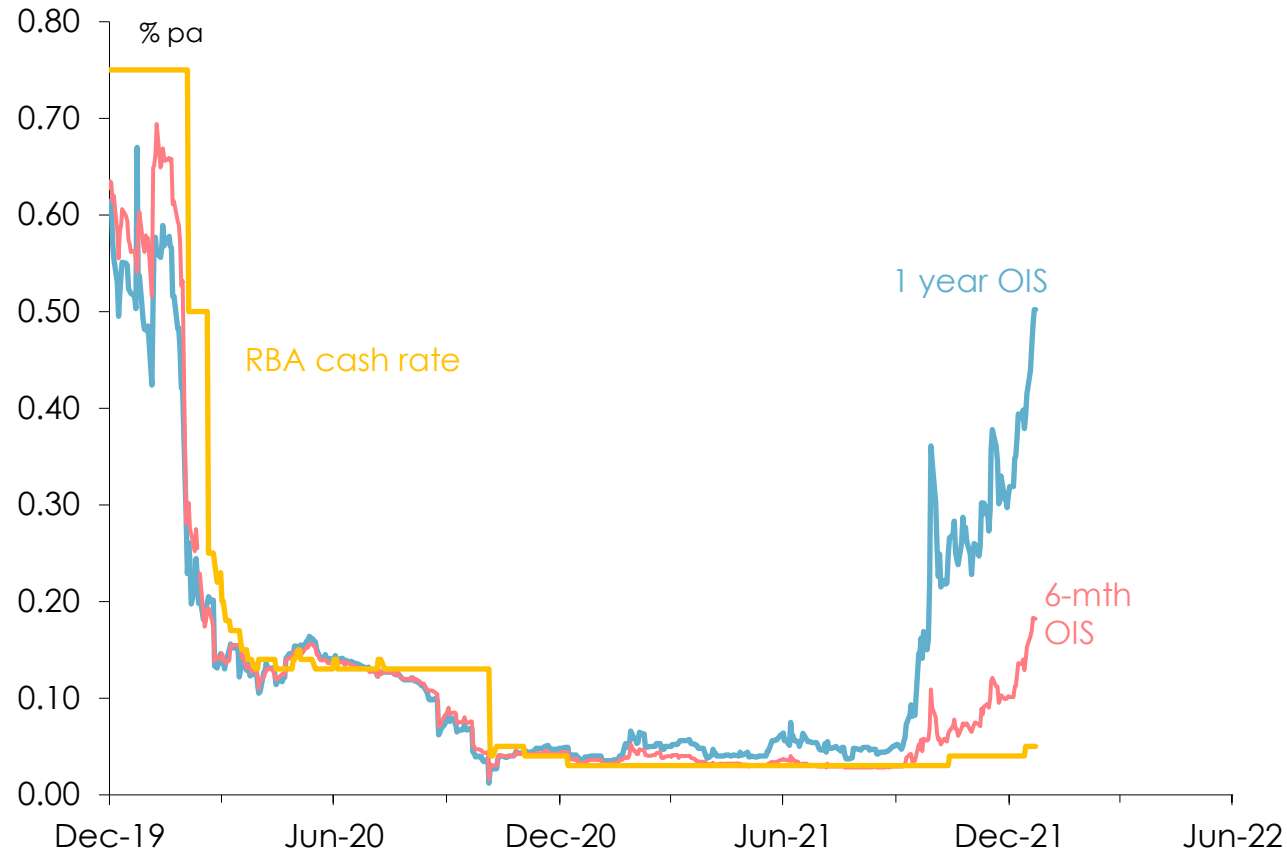
Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; [Australian Office of Financial Management](#). December quarter data will be released on 31st March 2022. [Return to "What's New"](#).

Australian financial markets

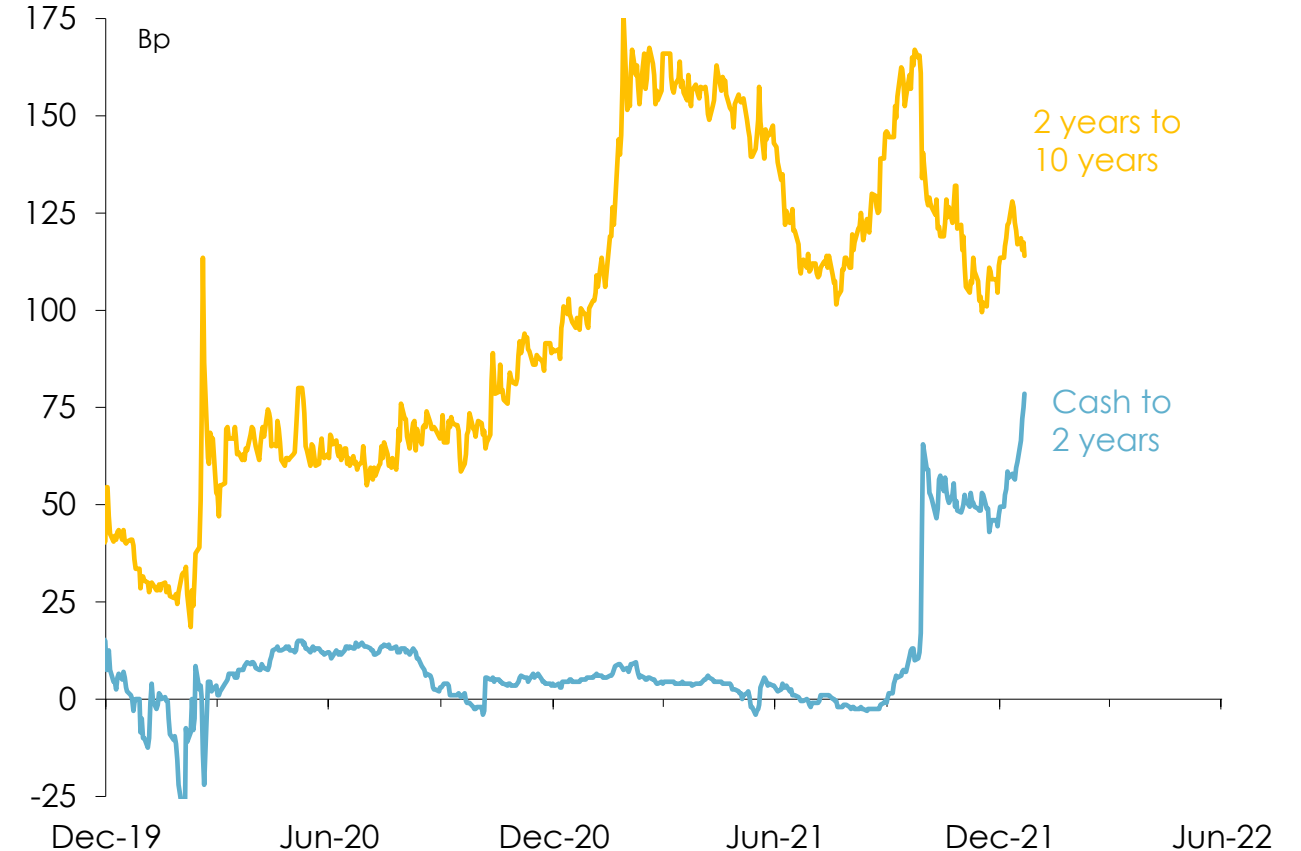
Money and bond markets are pricing two increases in the RBA's cash rate this year, despite the RBA's view that it's "not warranted"

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Overnight index swap rates



Yield curves



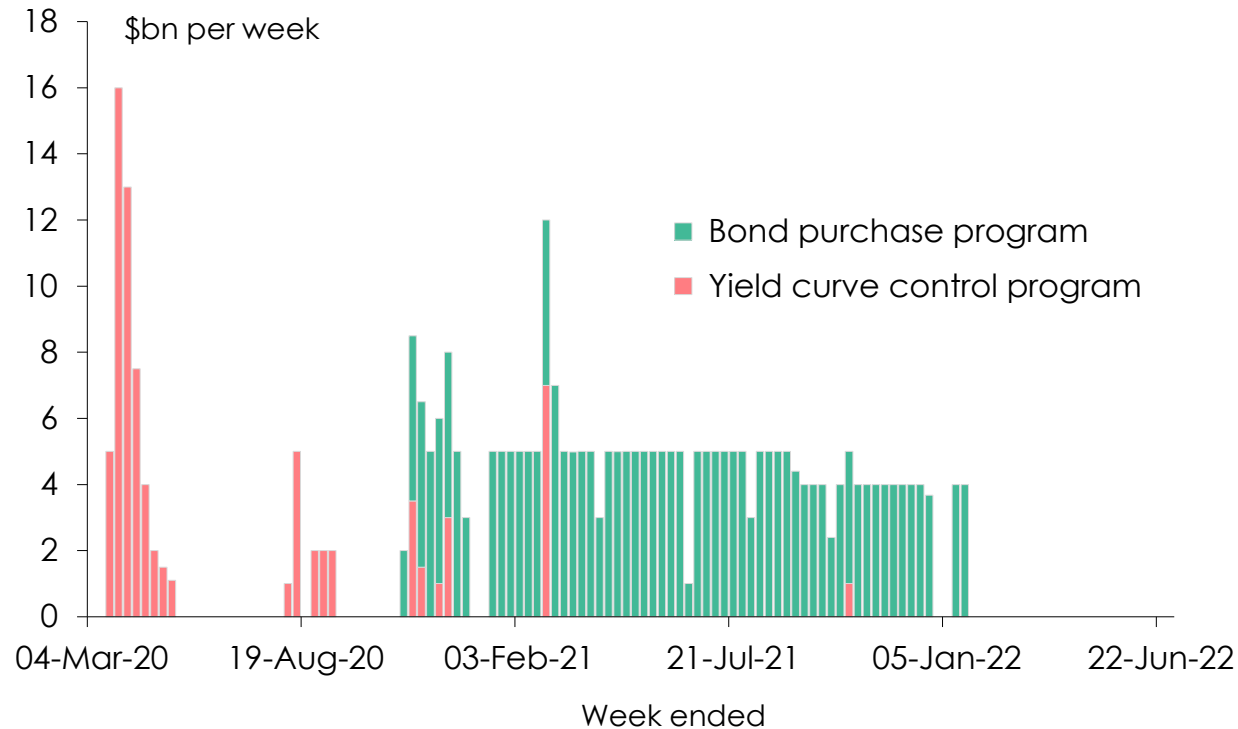
❑ Short-term money markets are now pricing two rate rises in the second half of this year – despite the RBA's repeated insistence that an increase in interest rates this year "isn't warranted" by either data or forecasts

❑ 2-year bond yield pricing suggests that markets expect that there will be further interest rate increases in 2023, after the two priced for this year

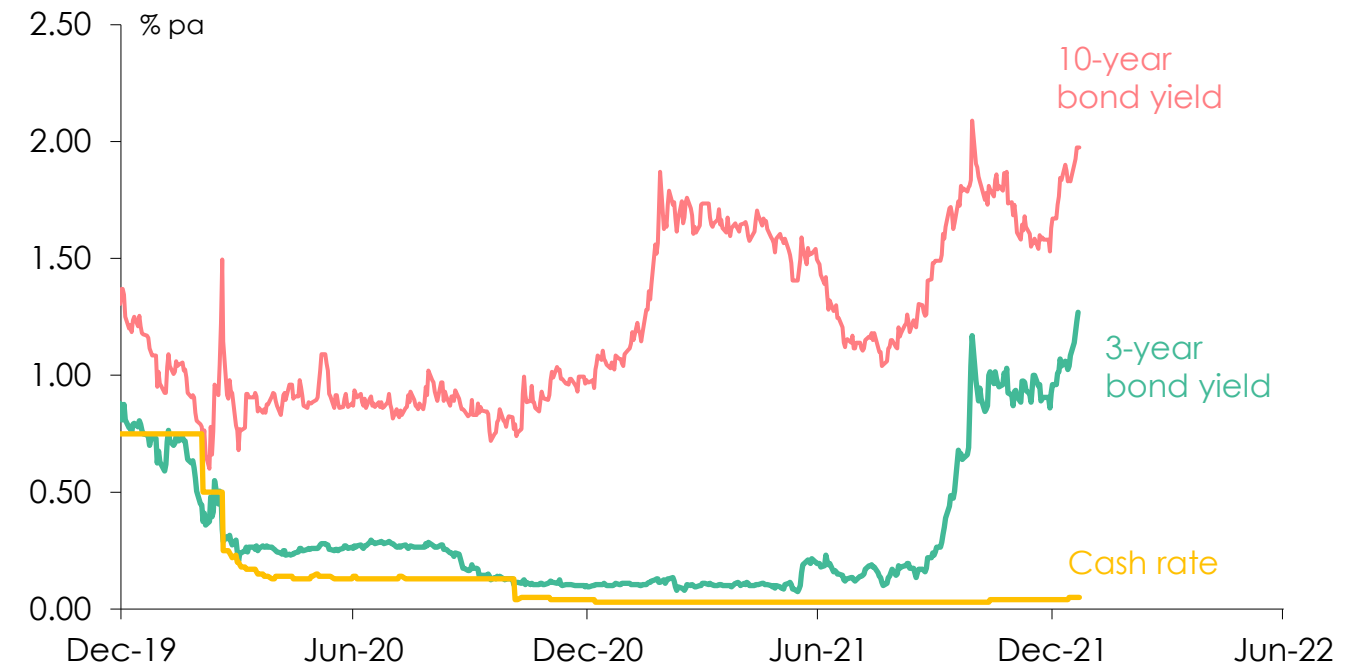
Australian bond yields have risen more than 30 bp so far this year, broadly in line with the trend in US yields

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RBA open market bond purchases



Interest rates



- Bond yields have continued rising in the first three weeks of this year, the 3-year rising 31bp since the end of 2021 to 1.27%, its highest since mid-May 2019, while the 10-year yield has risen a similar margin to 1.98%, its highest since late October last year, after again briefly touching 2% mid-week
 - the spread between Australian and US 10-year yields has been little changed since the beginning of the year, at 10-12 bp (ie, the rise in Australian yields has been broadly in line with their US counterparts), down from over 30 bp in early November

- The RBA again bought \$4bn of bonds under its Bond Purchase Program – bringing its cumulative purchases to \$268.5bn (or \$346.5bn including purchases under the 3-year yield target program which the RBA formally abandoned at its November Board meeting) – the RBA Board will decide whether to taper or terminate this program at its next meeting on 1st February (see [slide 75](#))

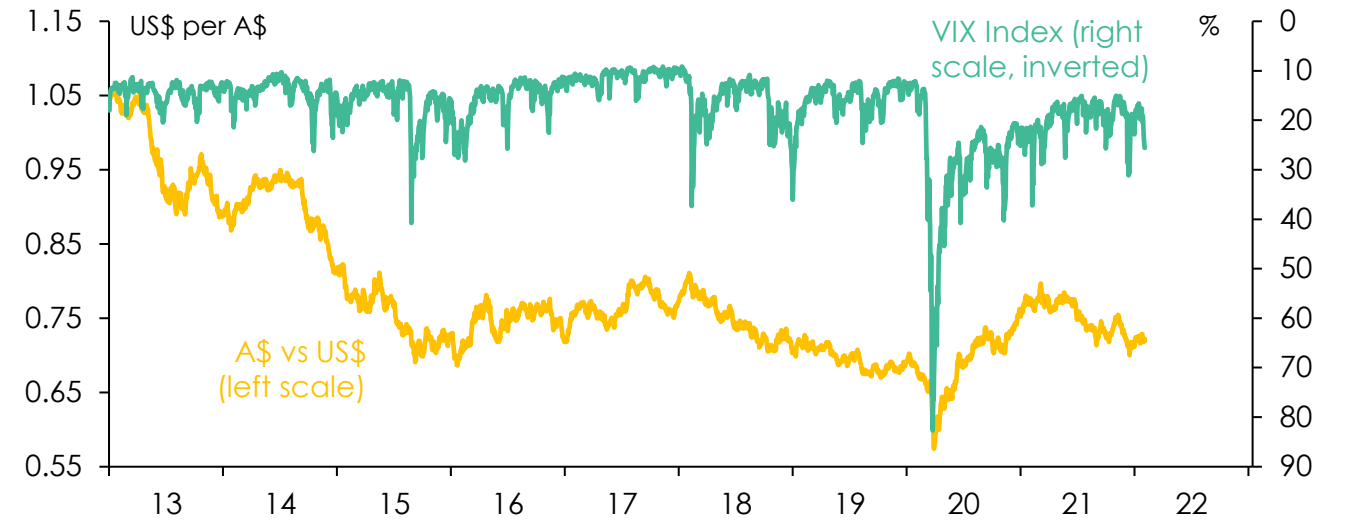
The A\$ fell back below US72¢ this week against a stronger US\$, on the back of weaker investor risk appetites, and despite a firmer iron ore price

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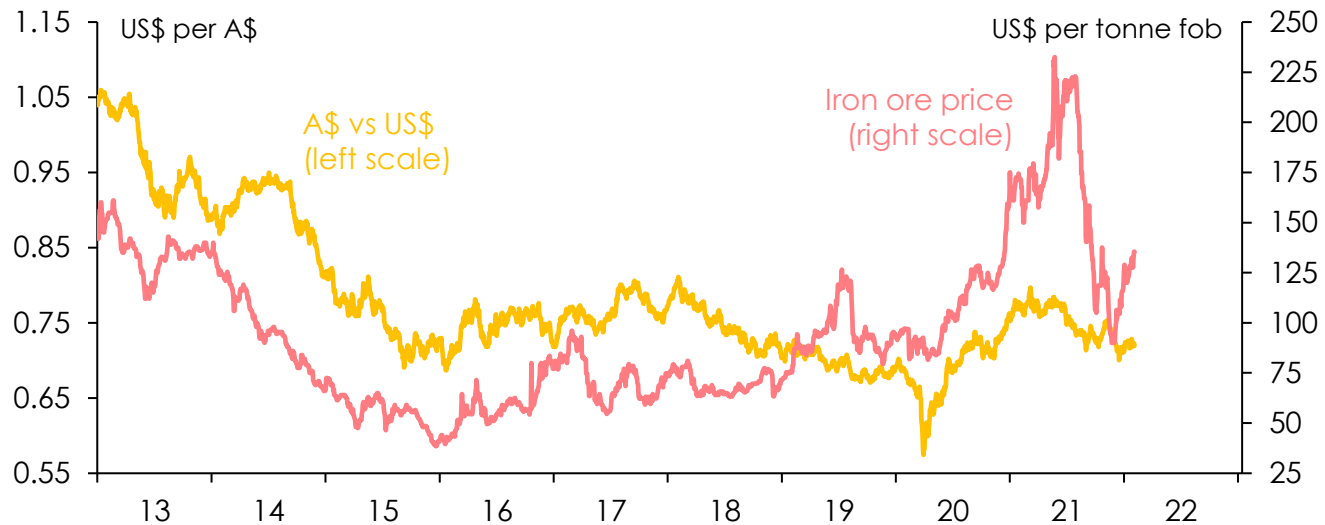
A\$-US\$ and US\$ trade-weighted index



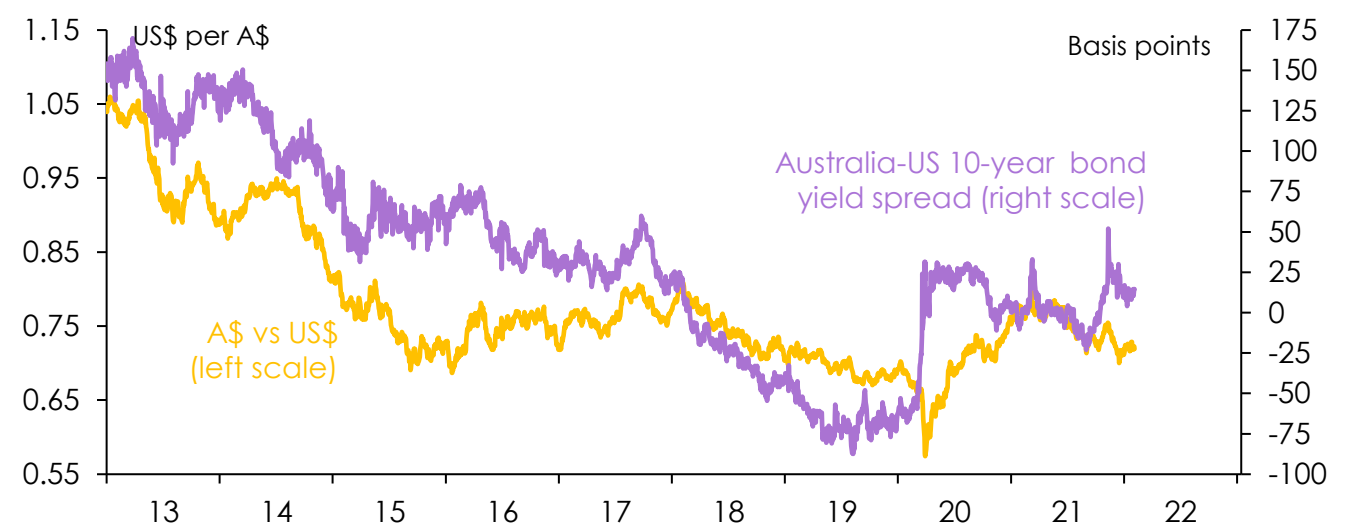
A\$-US\$ and US equity market volatility



A\$-US\$ and spot iron ore prices



A\$-US\$ and Australia-US 10-year bond yield spread

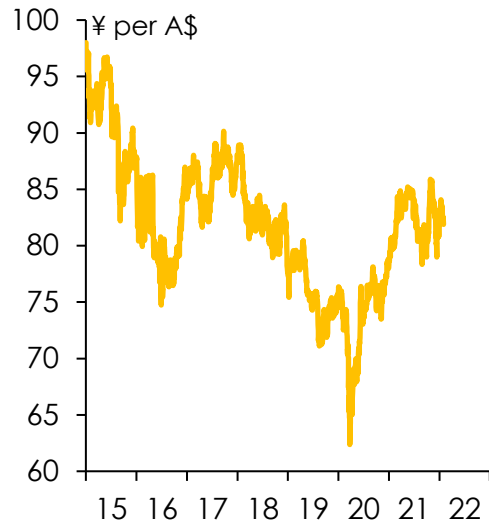


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 21st January. [Return to "What's New"](#).

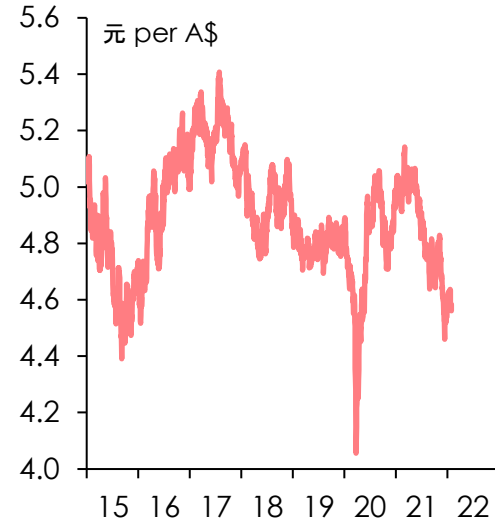
The A\$ was mixed vs third currencies, rising against the euro, pound and NZ\$ but weakening against the yen, yuan and C\$

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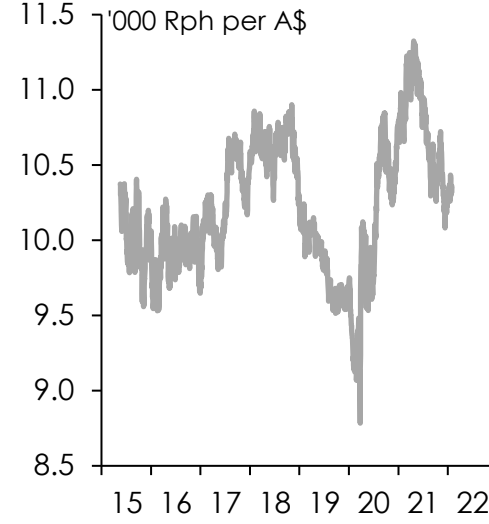
A\$ vs Japanese yen



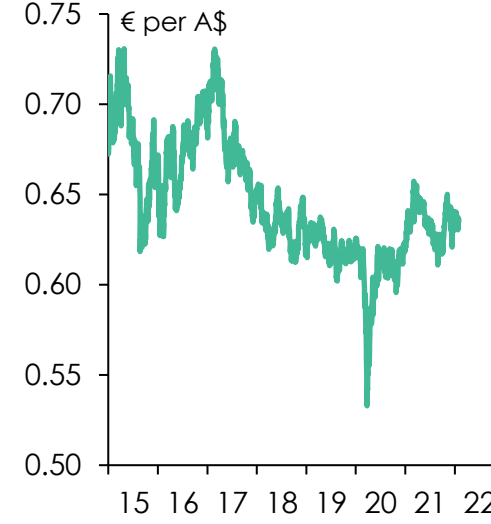
A\$ vs Chinese yuan



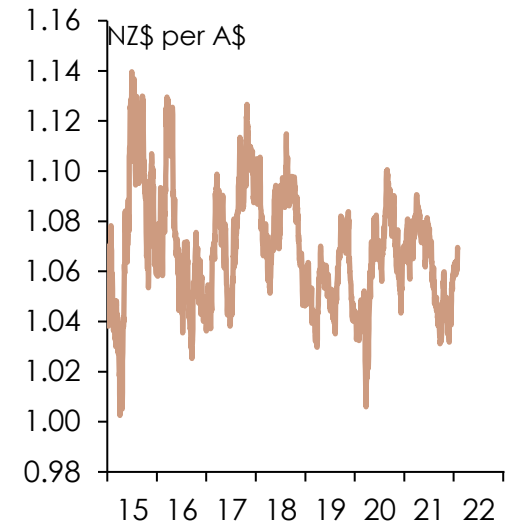
A\$ vs Indo rupiah



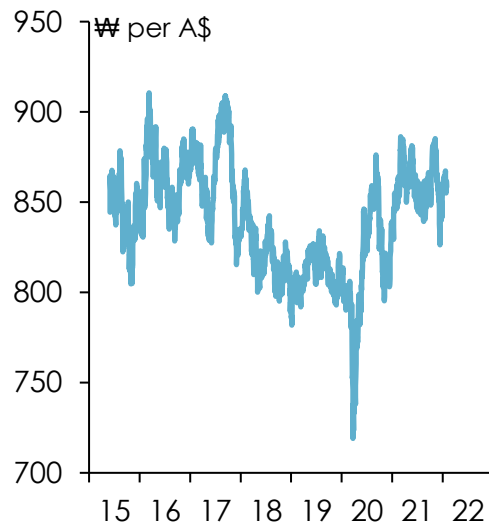
A\$ vs Euro



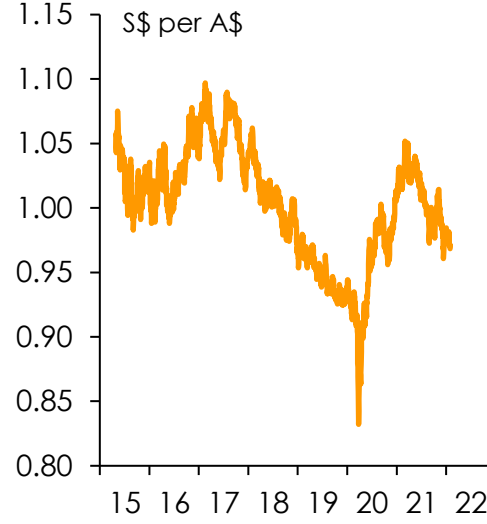
A\$ vs NZ\$



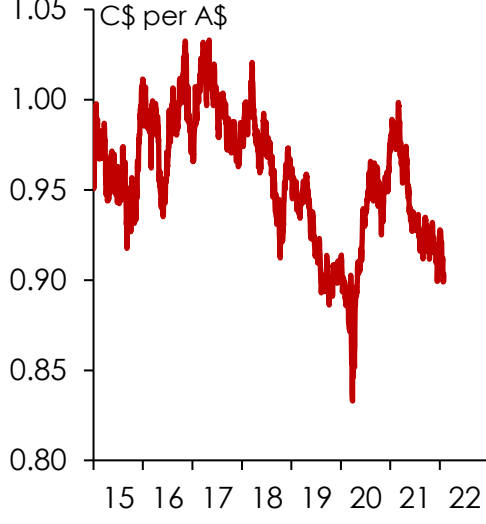
A\$ vs Korean won



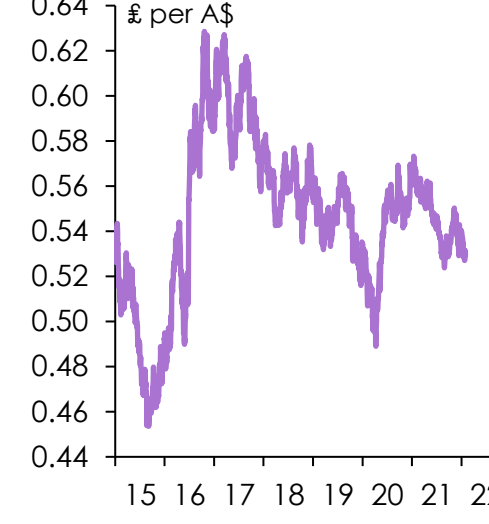
A\$ vs Singapore \$



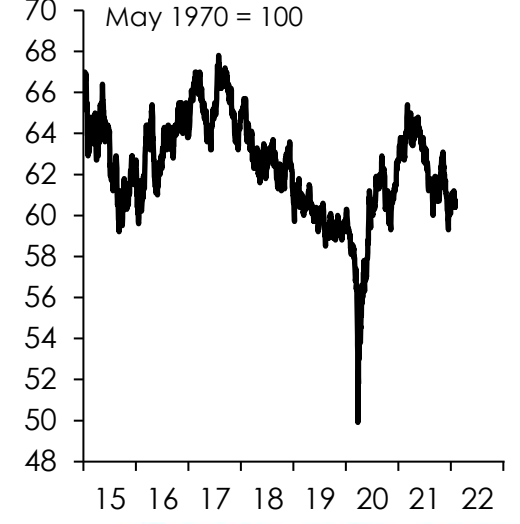
A\$ vs Canadian \$



A\$ vs British pound



A\$ TWI

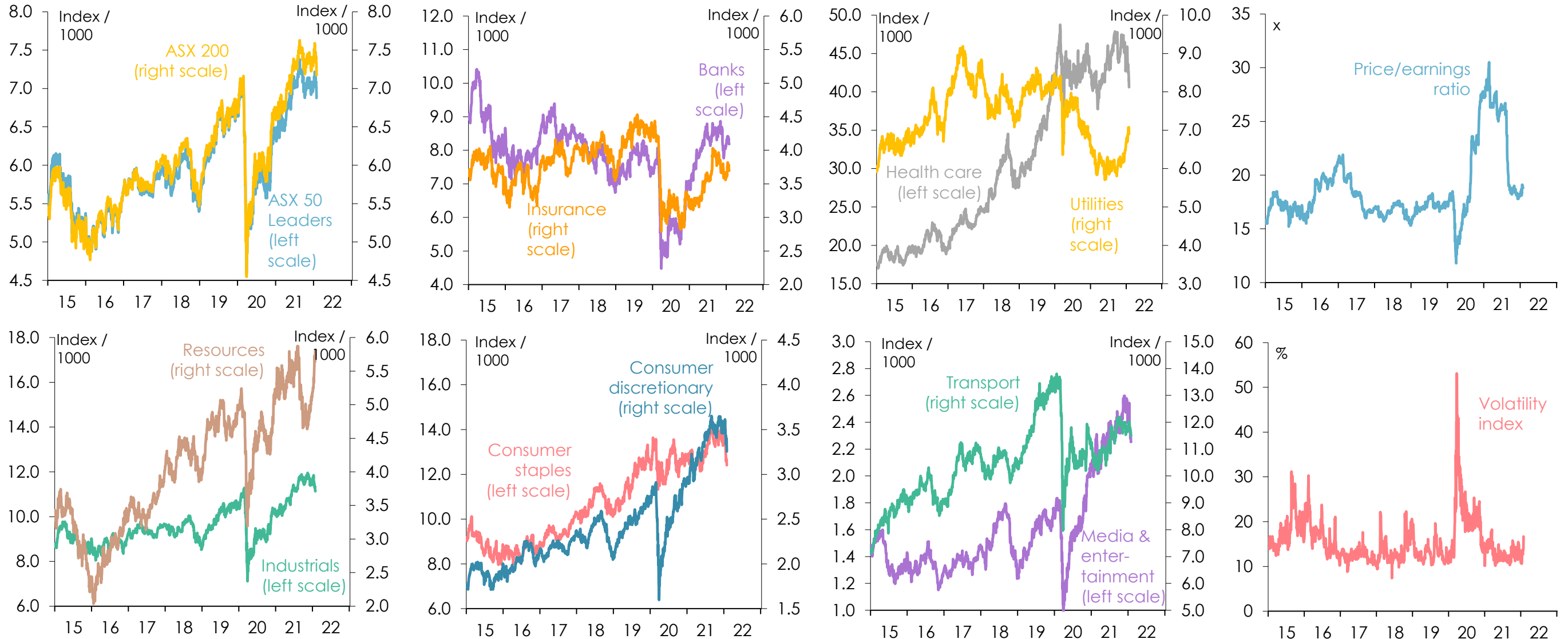


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 21st January. [Return to "What's New"](#).

The ASX had a down week, in line with global trends, with most sectors except for resources, utilities and consumer goods down more than 1%

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ASX indices



Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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